



BANCA D'ITALIA
EUROSISTEMA

Annual Accounts

Ordinary Meeting of Shareholders
Rome, 29 March 2019

125th FINANCIAL YEAR

2018

Financial Year

125th



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ISSN 2499-7951 (print)

ISSN 2499-796X (online)

Designed and printed by the Printing and Publishing Division of the Bank of Italy

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* Official Italian version.

THE BANK OF ITALY'S ANNUAL ACCOUNTS

The Bank of Italy's annual accounts consist of the balance sheet, the profit and loss account and the notes to the accounts and are accompanied by the management report pursuant to Article 37 of the Bank's Statute.

The draft annual accounts are transmitted to the Ministry of Economy and Finance in accordance with Article 117 of Royal Decree 204/1910 (Consolidated Law on the Bank of Issue).

MANAGEMENT REPORT

The management report briefly describes the Bank of Italy's governance and contains information on assets, liabilities and profit and loss, which is designed to help readers better understand the work of the Bank. It illustrates the main risks to which the Bank is exposed and the resources available.

The various items in the balance sheet highlight some of the main tasks carried out by the Bank of Italy.

The implementation of the monetary policy decisions taken at Eurosystem level is reflected in the securities purchased for monetary policy purposes, in lending to euro-area credit institutions and, on the liability side, in the latter's deposits with the Bank of Italy. Other securities are held for investment purposes, including those in relation to own funds.

The management of Italy's official reserves, which includes gold, is reflected in claims and liabilities denominated in foreign currency. The item *Banknotes in circulation*, under liabilities, reflects the Bank of Italy's task of issuing currency, a role it shares with the other Eurosystem central banks. Liquidity is distributed across the euro area through the TARGET2 settlement platform developed and managed by the Bank of Italy together with other central banks. This generates intra-Eurosystem claims and liabilities in the Bank's balance sheet. The treasury services the Bank performs on behalf of the government are reflected in general government deposits recorded under liabilities.

The income arising from these activities is entered into the profit and loss account together with the operating expenses connected to them and those incurred in relation to the other functions performed by the Bank, mainly in the domains of banking supervision and crisis resolution, economic research and statistical analysis, anti-money laundering, and customer protection in banking and finance.

Further information of a non-financial nature can be found in the *Report on Operations and Activities of the Bank of Italy* and on the Bank's website (www.bancaditalia.it).

Highlights of the Bank's annual accounts

Figure 1



Governance

According to the Bank's Statute, the central decision-making bodies responsible for the annual accounts are the Governing Board, the Board of Directors, the Board of Auditors and the Meeting of Shareholders.

The Governing Board is a collegial body which adopts measures of external relevance concerning the exercise of the Bank's public functions, without prejudice to the Governor's powers and competencies as a member of the decision-making bodies of the European Central Bank (ECB). The Governing Board is made up of the Governor, the Senior Deputy Governor, and the three Deputy Governors.

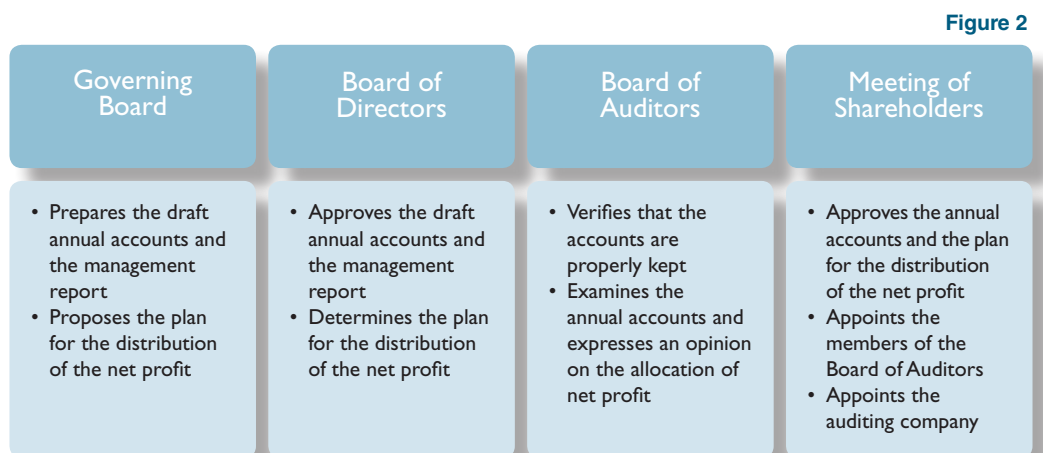
The Board of Directors is chaired by the Governor and is responsible for the general administration, the management supervision, and the internal control of the Bank. Neither the members of the Board of Directors nor the shareholders may interfere in any matters or decisions relating to the exercise of the public functions assigned to the Governor and the Governing Board by law and by the Bank's Statute.

The Board of Auditors oversees the administration of the Bank to ensure compliance with the law, the Statute, and the General Regulations. It also verifies that the accounts are properly kept, examines the annual accounts, and expresses an opinion on the distribution of the net profit.

The Meeting of Shareholders appoints the members of the Board of Directors, the Board of Auditors and the auditing company and approves the annual accounts and the distribution of the net profit.

The approval process for the annual accounts

The draft annual accounts and the management report are approved by the Board of Directors, on a proposal of the Governing Board and having heard the Board of Auditors. The Board of Directors then submits them to the Ordinary Meeting of Shareholders for approval, together with the Report of the Board of Auditors and that of the auditing company. Figure 2 shows the tasks of the Bank's central governing bodies relating to the annual accounts.



In accordance with Article 27 of the Statute of the European System of Central Banks (ESCB), the Bank's accounts are audited by an external auditor or by an auditing company, which issues a report on the annual accounts for the year (Article 42 of the Bank's Statute). The auditing company appointed for the years 2016-2022 is BDO Italia SpA.

Internal control system and risk management

The Bank has an internal control system aimed at improving the manner in which the Bank pursues its objectives, the quality of its services, and the efficiency in the use of its resources. It also manages the various risks and ensures compliance with internal and external regulations.

The internal control system is based on the internationally recognized Three Lines of Defence model. This model provides a global vision of the control system, defines roles and responsibilities, and encourages constant communication between the control and risk management functions while respecting their independence.

The first line of defence consists of the units responsible for operational processes and for the identification, measurement and management of the related risks. The second line of defence consists of the organizational functions that are separate from the process management units. These functions monitor specific risks (financial, operational, accounting, tax, IT, legal, workplace health and safety, crime prevention and corruption) on a comprehensive and transversal level and report directly to the Governing Board. The activities carried out by these functions help the first line of defence to manage risks and to calibrate the control measures with the proportionality criteria. The third line of defence is the internal audit function, which focuses on the continuous improvement of the control system in order to strengthen the efficacy, efficiency and safety of operational processes. It works independently and is subject to external periodic review, in compliance with international standards. It also conducts audits within the context of the ESCB. An advisory committee on internal auditing has been set up to strengthen the system of controls and the independence and objectiveness of the internal audit function. It provides advice and support to the Board of Directors and the Governor on matters concerning the oversight of the internal control system. It also issues opinions on internal audit policy and on the annual audit plan.

Financial risk

The Bank of Italy manages the financial risks to which it is exposed on an integrated basis, taking into account the links between the various risk factors.

Financial risks stem chiefly from the assets held for monetary policy purposes and the management of the foreign currency reserves and of the investment portfolio. The Statute of the ESCB provides that the risks attached to monetary

policy operations may be shared with the other euro-area national central banks (NCBs) in proportion to their respective contributions to the capital of the ECB (see the box: ‘Rules on risk sharing in monetary policy operations’).

The Bank of Italy measures financial risk using a methodology very similar to the one developed by the Eurosystem, with some adaptations to ensure it conforms more closely with the specific features of the Bank. The methodology is based on two different perspectives: financial and accounting. The first approach assesses risk exposure without considering the accounting rules applied to the balance sheet items and evaluates its impact on the net equity of the Bank at current market values. The second approach, which is used for assessments relating to the size of the financial buffers when drawing up the annual accounts, instead estimates the impact of risk exposure on the profit and loss account and on net equity taking into consideration Eurosystem accounting rules.

In both cases, it is a very conservative metric since it provides an estimate of potential losses characterized by low probability and high impact (expected shortfalls).

In addition to monitoring its risk position as a whole, the Bank performs controls and adopts mitigation measures for each type of risk (Table 1).

Operational risk

Operational risk represents the risk that external events or inadequate procedures, systems and human resources pose to the Bank’s reputation, its operations and its capital.

The Bank has in place a system for integrated operational risk management (ORM) in which each organizational unit identifies and assesses its own risk exposure in relation to the adequacy of existing safeguards. The Operational Risk Committee assists the Governing Board in promoting and coordinating measures and in monitoring their implementation and inclusion in the Bank’s strategic planning process.

Operational risk is also quantified in terms of its potential financial impact using an internal advanced measurement approach (AMA) model similar to the ones that prudential regulations require banks to adopt.

In 2018, various measures were adopted to improve the efficiency of the operational risk management system. One of the most important measures was its integration with the business continuity function, also on an organizational level.

In line with international best practices and pursuant to Eurosystem guidelines, a function for ethical compliance and the prevention of corruption is operational within the Bank. The Bank’s Anti-Corruption Plan for 2018-2020 is available on its website (*Piano triennale di prevenzione della corruzione*, only in Italian).

Table 1

Financial risk map			
Component	Type	Source of the risk	Measures for risk control and impact mitigation
Credit risk	<ul style="list-style-type: none"> ▪ Default risk ▪ Migration risk (1) ▪ Counterparty risk 	<ul style="list-style-type: none"> ▪ Foreign currency reserves ▪ Investment portfolio 	<ul style="list-style-type: none"> ▪ A rigorous selection of investment instruments and counterparties ▪ Limits to individual and sectoral exposures, to be monitored daily
		<ul style="list-style-type: none"> ▪ Monetary policy assets 	<ul style="list-style-type: none"> ▪ Collateralization of refinancing operations and stringent credit quality criteria for assets pledged as collateral and for issuers of monetary policy securities (2) ▪ Daily monitoring of collateral and use of control measures such as spreads, variation margins and limits ▪ For securities purchase programmes, eligibility criteria and specific limits applying to issues and issuers
Market risk	<ul style="list-style-type: none"> ▪ Risk of incurring losses owing to unfavourable changes in exchange rates and in the prices of gold and securities 	<ul style="list-style-type: none"> ▪ Foreign currency reserves ▪ Investment portfolio ▪ Monetary policy assets 	<ul style="list-style-type: none"> ▪ Risk measurement and monitoring ▪ Revaluation accounts (3) ▪ Foreign exchange forward sales (for foreign currency assets held as investments of own funds, when deemed necessary)
Liquidity risk	<ul style="list-style-type: none"> ▪ Risk of incurring losses owing to the impossibility of selling assets at market value in a suitable time frame 	<ul style="list-style-type: none"> ▪ Foreign currency reserves (4) 	<ul style="list-style-type: none"> ▪ High-liquidity financial instruments ▪ Very prudent criteria for selecting instruments and counterparties ▪ Tight restrictions on maturity ▪ Restrictions on purchases of individual issues

(1) Downgrade risk. – (2) Credit risk control and management measures are defined at Eurosystem level. – (3) Revaluation accounts, which record the unrealized gains on assets valued at current exchange rates and prices, limit the impact on the year-end financial results of fluctuations in the prices and exchange rates of the assets to which the unrealized gains refer (see 'Legal basis, accounting policies and layout of the annual accounts'). Unrealized losses in excess of the corresponding revaluation accounts, instead, are recorded directly in the profit and loss account. – (4) Liquidity risk mainly affects foreign currency reserves, as these are traded more frequently compared with the investment portfolio.

Background to Eurosystem monetary policy

The movements in the balance sheet figures, the risks and the Bank's financial results must be examined in relation to its institutional functions and especially to the decisions taken within the context of Eurosystem monetary policy.

Decisions of the Eurosystem

In 2018 the monetary policy stance continued to be expansionary in the Eurosystem, in order to encourage the gradual convergence of inflation rates to below, but close to, 2 per cent over the medium term.

Net purchases under the expanded asset purchase program (APP)¹ continued, but at a monthly pace of €30 billion until September and €15 billion until December. The reinvestment of principal payments from maturing securities also continued.

The key ECB interest rates remained unchanged at 0.0 per cent for the main refinancing operations and 0.25 per cent on the marginal lending facility; the interest rate on the deposit facility was kept at -0.40 per cent.²

In the monetary policy meeting held on 13 December 2018, the ECB Governing Council confirmed the current interest rates and decided to end the net purchases under the APP, consistent with its intentions signalled in June 2018. It also announced that it intends to continue reinvesting in full the principal payments from maturing securities purchased under the APP for an extended period of time past the first increase in interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The size of the portfolio of each constituent programme of the APP is expected to be maintained at their respective levels as at the end of December 2018.

The Governing Council reiterated that it expects interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation towards the objective. The Council also announced that it will assess the possibility of taking further measures to ensure that the banking sector has the liquidity necessary for the smooth functioning of the monetary policy transmission mechanism in the coming years.

¹ The programmes active in 2018 encompass the third Covered Bond Purchase Programme (CBPP3), the Asset-Backed Securities Purchase Programme (ABSPP), the Corporate Sector Purchase Programme (CSPP), and the Public Sector Purchase Programme (PSP). Under the PSP, the ECB and the NCBs can buy, in the secondary market, euro-denominated securities with a residual life of 1 to 30 years issued by euro-area central governments, euro-area regional and local authorities and by euro-area agencies and European institutions.

² The negative deposit facility interest rate also applies to bank deposits in excess of the minimum reserve requirement and to certain accounts held with Eurosystem NCBs, including government deposits exceeding a certain threshold.

The main refinancing operations and the three-month longer-term refinancing operations were conducted as fixed rate tender procedures with full allotment and will continue as long as necessary, and at least until the end of the last reserve maintenance period of 2019.

In 2018, no new targeted longer-term refinancing operations (TLTRO2) took place.

RULES ON RISK SHARING IN MONETARY POLICY OPERATIONS

Generally, the risks associated with refinancing operations are shared. Under Article 32.4 of the ESCB Statute any losses associated with these operations can, by decision of the Governing Council of the ECB, be shared among the Eurosystem NCBs in proportion to their shares in the ECB's capital (capital key).

The ESCB Statute states that all Eurosystem refinancing operations with bank counterparties must be based on adequate collateral, in the form of the transfer of ownership or pledging of eligible financial assets. In accordance with the rules it established, the Governing Council waives the principle of risk sharing where certain types of collateral are accepted by the NCBs at their own discretion.

As the Governing Council has established, the risks attached to securities purchased under the Securities Markets Programme (SMP), the third Covered Bond Purchase Programme (CBPP3), and the Corporate Sector Purchase Programme (CSPP) are shared among the NCBs according to their capital key. The risks associated with covered bonds purchased in the context of CBPP1 and CBPP2 are borne by the single NCBs. In the case of the PSPP, the risks relating to securities issued by European institutions are shared among the Eurosystem NCBs, while those relating to other securities are borne by the NCB that made the purchases.

The risk sharing system also applies indirectly to all the securities purchased by the ECB for monetary policy purposes given that the NCBs hold its capital.

Overview of Eurosystem monetary policy

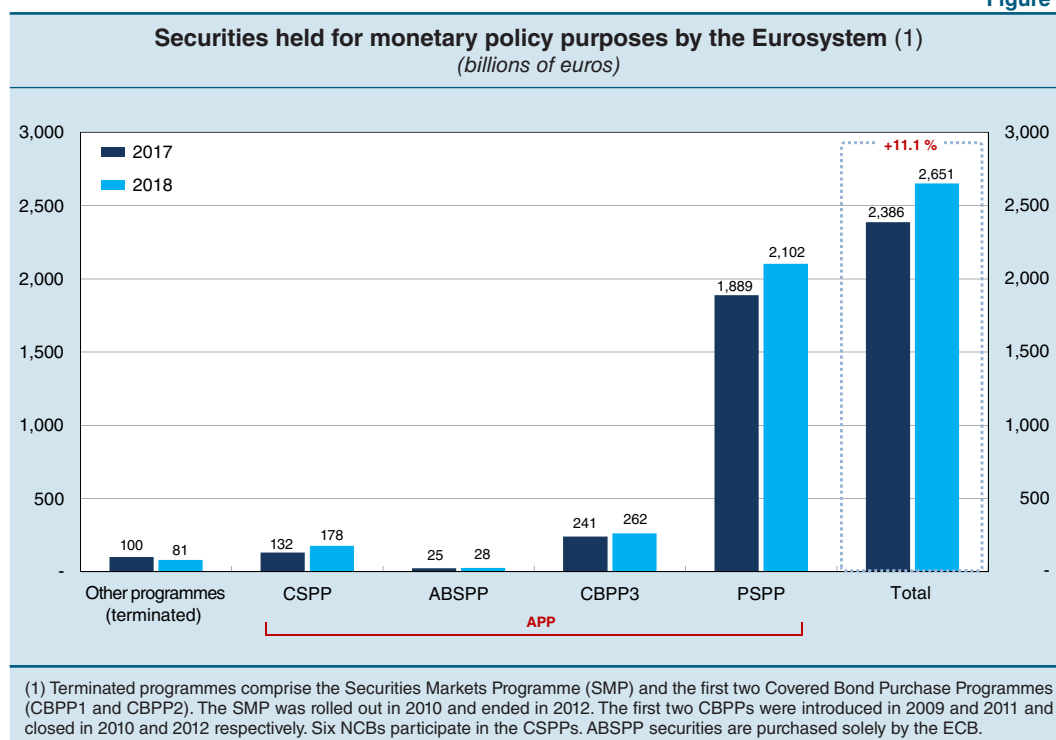
At the end of 2018, the Eurosystem's exposure to the counterparties participating in refinancing operations decreased by 3.9 per cent compared with the end of 2017.

The amount of refinancing operations outstanding on 31 December 2018 fell from €764.3 billion to €734.4 billion, mainly owing to voluntary repayments on the first three TLTRO2 operations and the end of the TLTRO1 operations. The share of longer-term refinancing operations continued to represent almost the entirety of the overall exposure (98.6 per cent compared with 99.5 per cent at the end of 2017).

The portfolio of securities held for monetary policy purposes increased by 11.1 per cent, from €2,386 billion to €2,651 billion, mainly as a result of purchases of public sector securities made under the PSPP (Figure 3).

At 31 December 2018, the securities held by the NCBs through the programmes subject to risk sharing amounted to €710.9 billion (€639 billion at the end of 2017), while those for which the risk is borne by the individual NCBs totalled €1,688.8 billion (€1,518.7 billion in 2017). Securities held by the ECB amounted to €251.7 billion (€228.4 billion in 2017).

Figure 3



Key developments in the Bank's annual accounts

Assets

In 2018, the Bank of Italy's total assets (Figure 4) continued to grow, albeit at a slower rate than in 2017 (4 per cent in 2018 against 20.3 per cent in 2017) largely on account of the decline in the rate of monthly purchases of monetary policy-related securities (Figure 5).³

³ Net purchases at the Eurosystem level amounted to €30 billion per month until September 2018 and €15 billion per month until the end of the year. In 2017, however, net purchases amounted to €80 billion per month for the first three months of the year, then €60 billion per month until December.

Figure 4

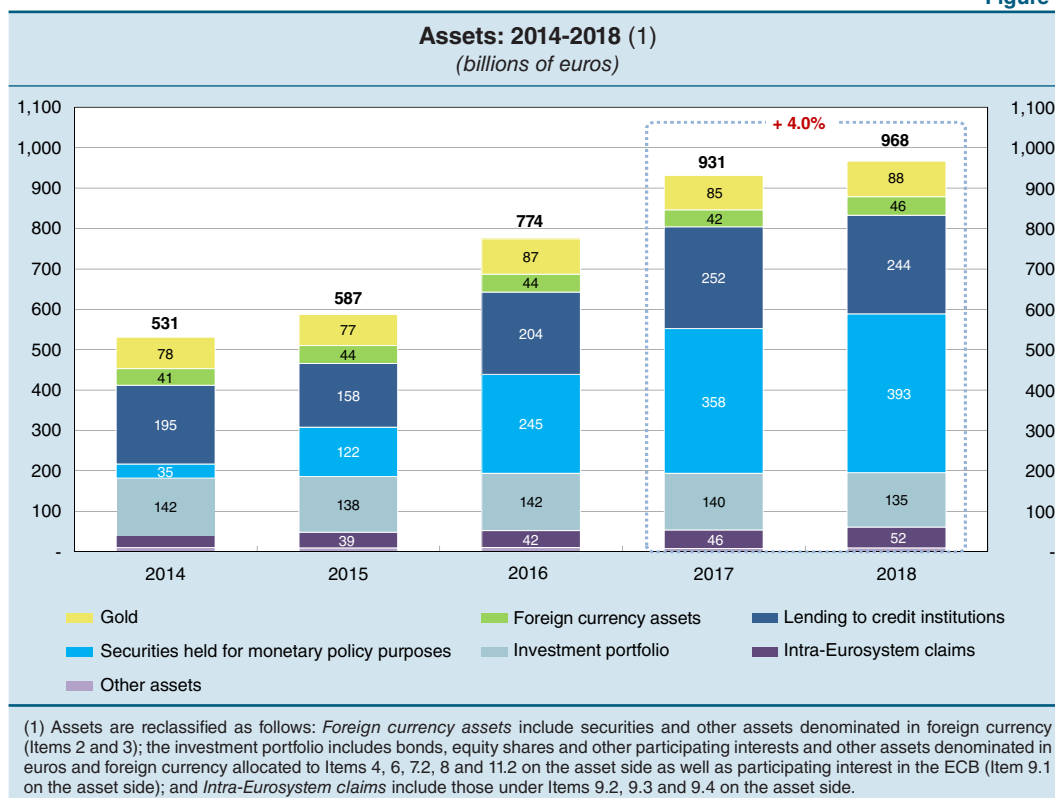
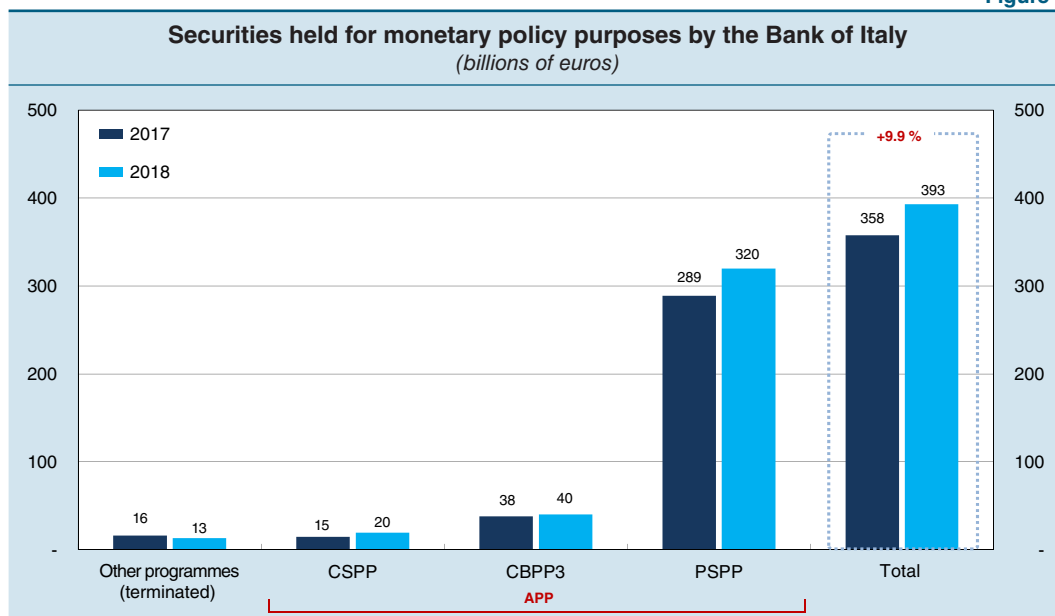


Figure 5

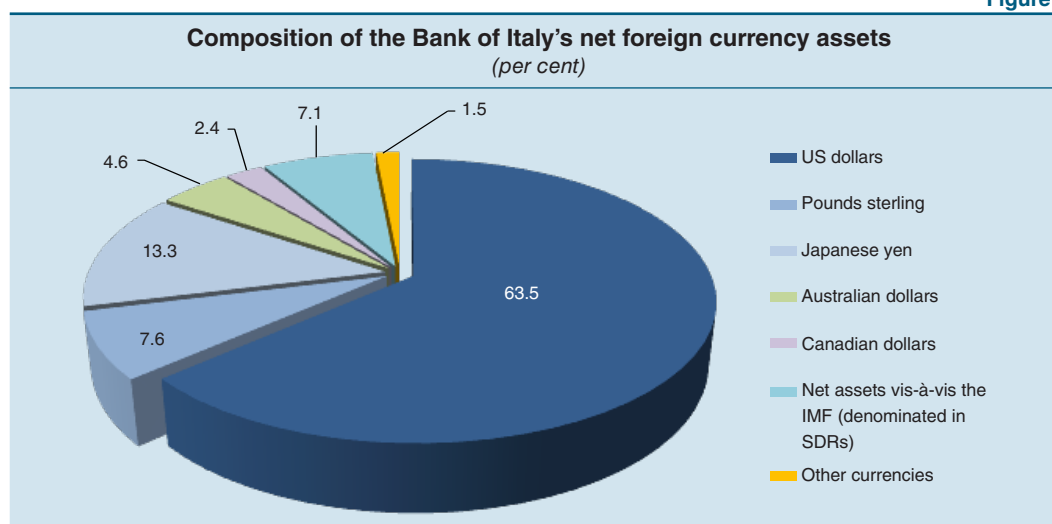


The country's official reserves consist of gold and claims on non-euro-area residents denominated in foreign currency; they are held by the Bank of Italy under the Treaty on the Functioning of the European Union and the Statute of the ESCB. Management of the official reserves makes it possible to service the Italian Republic's foreign currency

debt and meet its commitments to international organizations such as the International Monetary Fund (IMF). In addition, the official reserves are an integral part of the Eurosystem's reserves: their overall level and proper management help to safeguard the credibility of the Eurosystem itself. The foreign currency reserves are managed primarily with the aim of guaranteeing high levels of liquidity and security while also considering long-term expected yield. The Bank also manages a part of the ECB's foreign currency reserves in accordance with the guidelines laid down by the Governing Council.

At 31 December 2018 the value of the gold reserves was €88.4 billion (€85.3 billion at the end of 2017); the increase was due to the appreciation in the value of gold (3.6 per cent). Net assets vis-à-vis euro-area residents and non-residents denominated in foreign currency – for which the percentage composition is given in Figure 6 – totalled €37.7 billion at end-2018 (€33.6 billion at end-2017). The increase was caused by both the larger holdings and the appreciation of some of the main foreign currencies in the portfolio against the euro. In 2018 the Bank began to manage a new bond portfolio denominated in Chinese renminbi.

Figure 6



The securities held for investment purposes amounted to €133.8 billion in 2018, from €138.1 billion in 2017 (Table 2).

Table 2

Composition of the financial portfolio (1) (millions of euros)			
	31.12.2018	31.12.2017	Change
Government securities	121,238	124,500	- 3,262
Other bonds	2,971	3,003	-32
Equity shares and other participating interests	8,308	9,227	-919
ETFs and shares/units of CIUs	1,328	1,393	-65
Total	133,845	138,123	-4,278

(1) In compliance with the ban on the monetary financing of member states and euro-area public institutions, the securities of public-sector issuers are not acquired at issue. No investments are made in shares of banks and insurance companies.

The investment portfolio is mainly composed of bonds, especially Italian and other euro-area government securities; the part invested in equity instruments consists primarily of listed instruments (shares and, to a lesser extent, investment fund shares). Other bonds are those issued by international organizations and by firms.

In 2018, the Bank continued to rebalance its equities portfolio, which consists of shares issued by companies in Italy and in other euro-area countries, to align it with the established investment criteria.

INVESTMENTS NOT RELATING TO MONETARY POLICY

At the end of 2018, the Bank's net investments not relating to monetary policy, which are governed by a specific agreement (Agreement on Net Financial Assets – ANFA), totalled €85.5 billion, compared with €120.5 billion at the end of 2017. ANFA is an agreement on net financial assets (NFAs) between the national central banks of the euro-area countries and the ECB. The agreement sets rules and limits that NCBs must follow to ensure that purchases of financial assets connected with their national functions do not interfere with the conduct of the single monetary policy. NFAs are calculated as the algebraic sum of the balance sheet financial assets that are not directly related to monetary policy, including gold, net foreign currency assets and securities denominated in euros, net of non-monetary-policy liabilities.

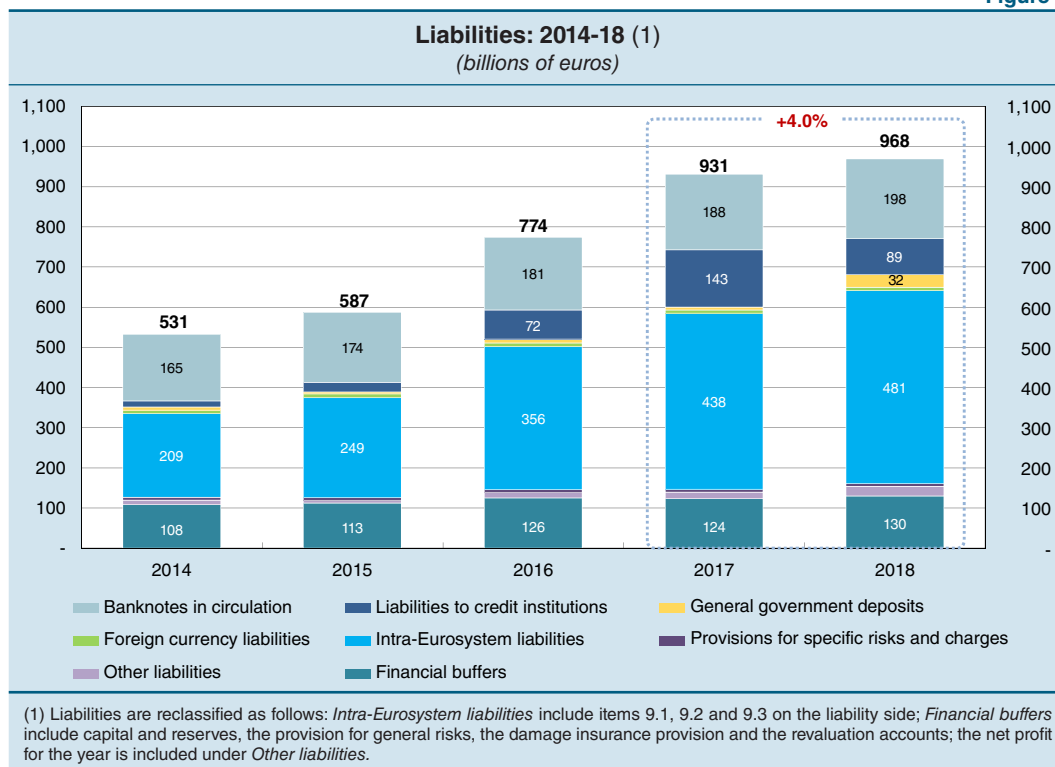
Further information on net financial assets can be found on the website of the ECB, which publishes a monthly financial statement and the annual average amount of NFAs for each NCB and for the ECB.

The Bank also manages the investments of the defined-contribution pension fund for staff hired starting on or after 28 April 1993. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. Its investments and earmarked funding contributions are included in the Bank's balance sheet, under *Other assets* and *Other liabilities* respectively. Investments are made observing benchmarks. At the end of 2018 the fund's total assets and corresponding liabilities in the Bank's balance sheet amounted to €542 million.

Liabilities

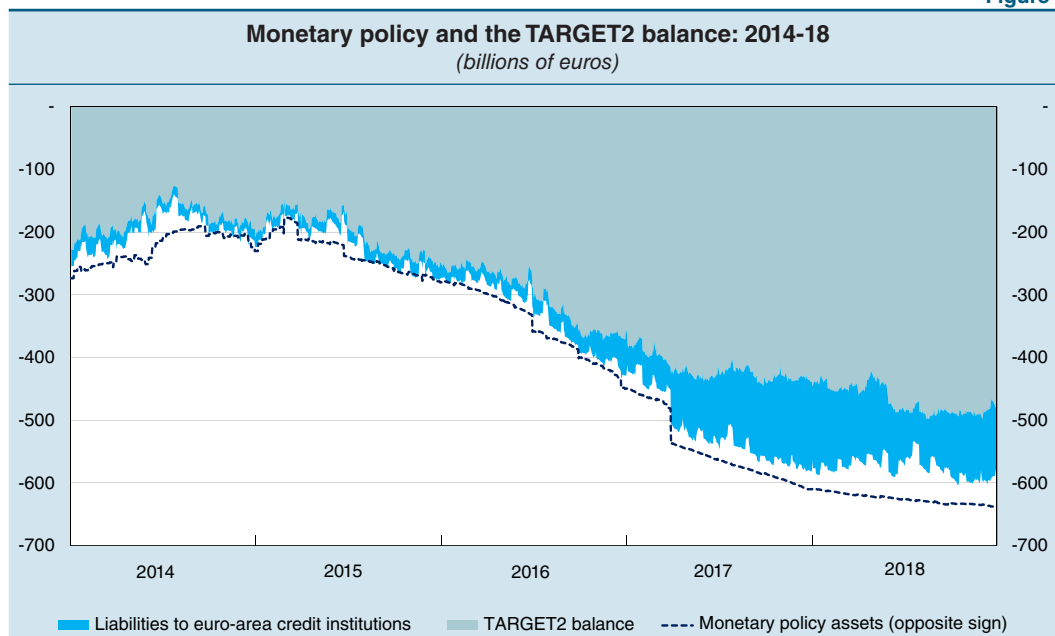
On the liability side (Figure 7), the Bank's negative balance in connection with the TARGET2 payment system continued to expand and the amount of banknotes in circulation increased further. The Bank's liabilities towards credit institutions declined, while general government deposits increased.

Figure 7



The Bank of Italy's negative balance on the TARGET2⁴ European payment system remained essentially stable between the spring of 2017 and April 2018 then subsequently widened, fluctuating significantly (see Figure 8).

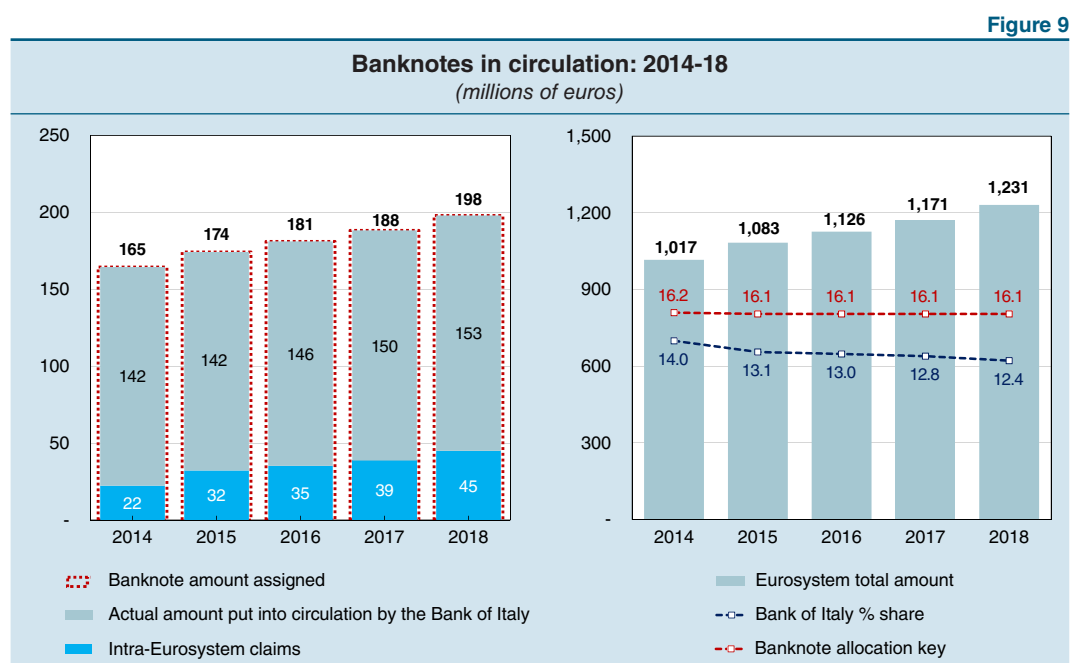
Figure 8



⁴ The TARGET2 balance can be viewed as the accounting counterbalance of all the transactions carried out between residents and non-residents in Italy.

The widening of the negative balance occurred mainly between the end of May and the start of June, largely reflecting net sales of Italian securities by foreign investors and coinciding with tensions on the Italian government securities market. The total value of the sales more than offset the liquidity inflows from the balance of payments current account surplus and from Italian banks' net funding on the foreign interbank market, the latter of which increased markedly in June. In the last few months of the year, capital outflows decreased and the Bank's negative TARGET2 balance improved, with inflows peaking in December.

The total value of euro banknotes in circulation is allocated within the Eurosystem according to the banknote allocation key. The ECB is allocated 8 per cent, while the remaining 92 per cent is allocated to the NCBs according to their shares in the capital of the ECB (see 'Legal basis, accounting policies and layout of the annual accounts'). The total amount allocated to the Bank of Italy is shown under the liability item *Banknotes in circulation*. The difference between the value of the banknotes allocated to the Bank of Italy and that of the banknotes the Bank actually puts into circulation gives rise to a remunerated intra-Eurosystem claim (liability) if positive (negative), which is recorded under *Net claims (liabilities) relating to the allocation of euro banknotes within the Eurosystem*. The total value of banknotes allocated to the Bank of Italy has risen in the last five years, owing to the overall growth in banknote circulation at Eurosystem level, more than the amount actually put into circulation by the Bank, resulting in an increase in the Bank's intra-Eurosystem claim on the asset side of the balance sheet (Figure 9; see 'Notes on the items of the balance sheet' – *Banknotes in circulation*).



The average stock of banknotes put into circulation by the Bank of Italy in 2018 amounted to €145 billion, up from €143 billion in 2017, an increase of 1.4 per cent compared with 4.1 per cent for the euro area.

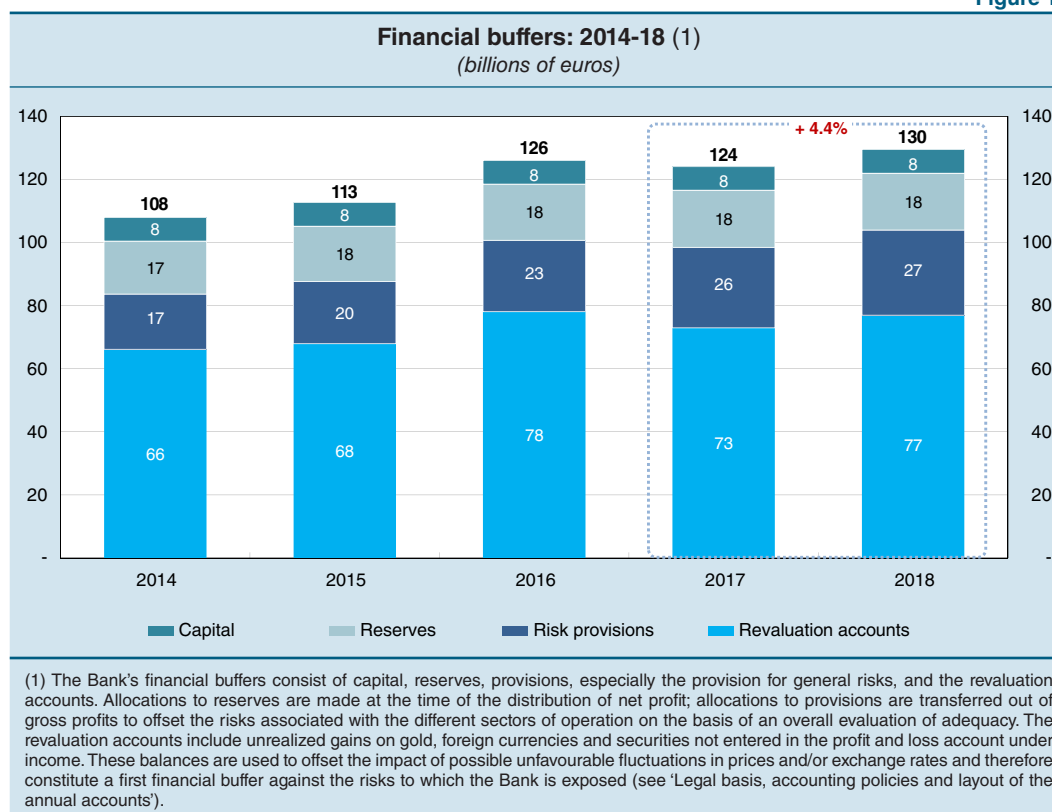
Financial risk

At the end of 2018 the overall financial risks, measured according to the accounting perspective, remained high owing to the further increase in the size of monetary policy assets.

Financial buffers

Changes in the Bank's financial buffers in the period 2014-18 (Figure 10) partly reflected movements in the revaluation accounts, which increased with the fluctuations in the price of gold, and partly reflected the increase in the other financial buffers, which have risen largely as a result of transfers to the provision for general risks to cover the risks assumed by the Bank following the expansion of monetary policy operations.

Figure 10



The Bank's capital

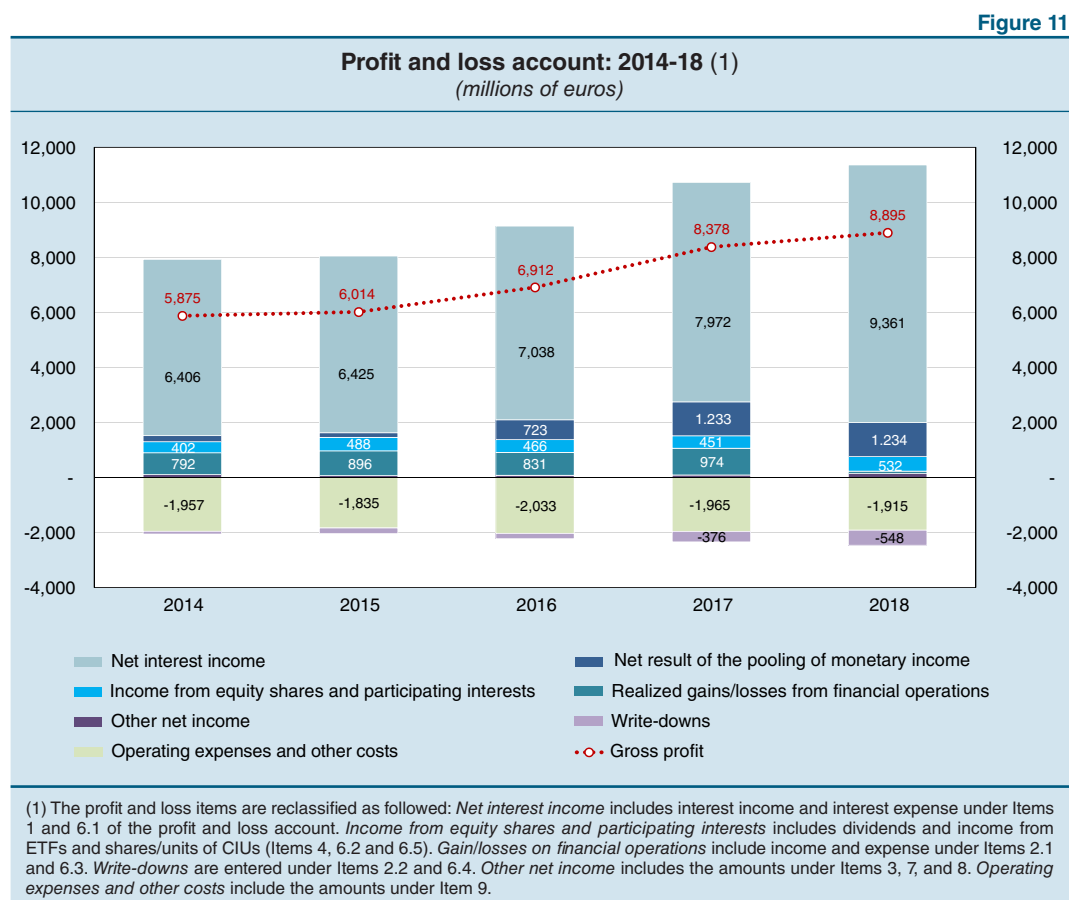
Law 5/2014 reformed the structure of the Bank's capital establishing, among other things, a threshold of 3 per cent on direct and indirect shareholdings. Shares held above this limit do not carry voting rights; the relative dividends are allocated by law to the Bank's statutory reserves. Dividends are due only to shareholders that

owned shares at the end of the fortieth day before the first notice convening the Meeting of Shareholders (Article 38 of the Statute). Shareholders' ownership rights are limited to the value of the capital and to the dividends (Article 3 of the Statute).

In the period between the introduction of the reform and 17 February 2019, the last date by which a shareholder could acquire shares with the right to dividends for 2018, 33.3 per cent of the capital was transferred. The three largest shareholders sold a combined 29.66 per cent of the capital. There are now 124 shareholders, of which 92 are new (6 insurance companies, 7 pension funds, 9 social security institutions, 24 banking foundations and 46 banks). At the above date, shareholdings that still exceeded the threshold amounted to €2,493,200,000 in nominal value.

The profit and loss account

Over the period 2014-18, the continued growth of the Bank's balance sheet, the changes in the composition of the assets and liabilities and the path of average interest rates have had a significant impact on the Bank's gross profit (Figure 11). Net interest income has increased consistently on account of purchases under the APP, despite the decline in the average interest rates on securities and the zero interest rate established by the ECB for refinancing operations.



The year 2018 closed with a net profit of €6,240 million, an increase of €2,345 million over the previous year (€3,895 million). The gross profit before tax and transfers to the provision for general risks was equal to €8,895 million (€8,378 million in 2017).

Net interest income is up with respect to the previous year (by €1,389 million). The increase was due mainly to the increase in interest income on PSPP securities, and on the decrease in interest expense on TLTRO2 operations (see 'Notes on the items of the profit and loss account' – *Net interest income*).

The net result arising from the redistribution of monetary income was once again positive, in line with the previous year (€1,234 million compared with €1,233 million in 2017; see 'Notes on the items of the profit and loss account' – *Net result of the pooling of monetary income*).

The profit and loss account was negatively affected by write-downs, which amounted to €548 million (an increase of €172 million over 2017), largely on account of the downward trend in the stock market and the depreciation of the Australian and Canadian dollars. It was also impacted by lower realized gains from financial operations (-€887 million), which were higher in 2017 thanks to the realised profits from the sale of shares of CIUs.

Operating expenses and other costs amounted to €1,915 million, down by 2.5 per cent compared with the previous year (see 'Operating expense and other costs').

The provision for general risks, which, under the Statute, covers the Bank's overall risk exposure, increased by €1,500 million to continue the gradual strengthening of the financial buffers, taking into account the expansion of the balance sheet and the Bank's overall risk exposure due to the purchase of securities for monetary policy purposes.

Taxes for the year amounted to €1,155 million (€1,563 million in 2017).

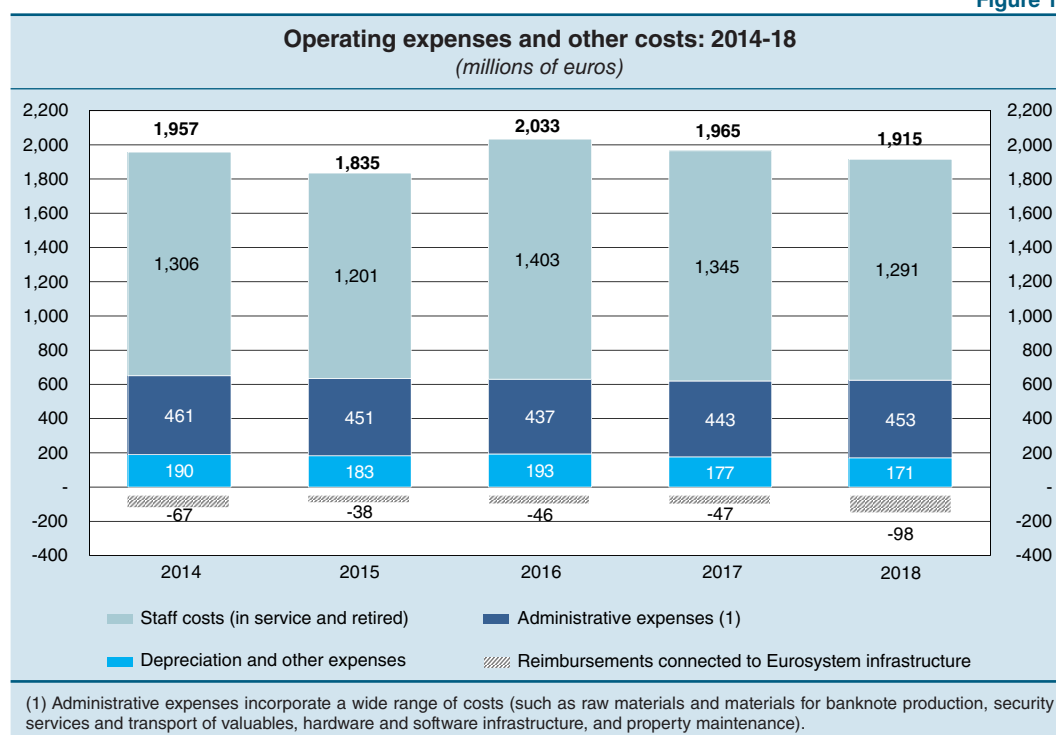
Operating expense and other costs

In 2018 operating expenses and other costs were down from €1,965 million to €1,915 million. Their trend and composition are detailed in Figure 12.

The reduction was mainly due to the decrease in the expenses included respectively under the sub-items *Pensions and severance payments* and *Transfers to/from provisions for staff severance pay and pensions, contributions to supplementary pension fund and other expenses*.⁵

⁵ These expenses are included under staff costs (Figure 12).

Figure 12



Administrative expenses, which in 2018 represented 24 per cent of total costs, were up slightly compared with 2017 (from €443 million to €453 million), owing to higher costs for the use of Eurosystem IT services, which were only partly offset by lower costs for the purchase of raw materials for banknote production (see ‘Notes on the items of the profit and loss account’ – *Expenses and sundry charges*).

Hardware and software infrastructure costs accounted for about 28 per cent of the total (24 per cent in 2017). Among the various IT projects carried out in 2018 are the development of a new service within the TARGET2 system for the instant settlement of retail payments (TARGET Instant Payments Settlement, TIPS), the creation of a new database containing detailed information on loans granted by the euro-area banking sector (Anacredit) and improvements to the functionality of the TARGET2 Securities system (T2S). The Bank of Italy will continue to be involved in a number of different projects in 2019. At Eurosystem level, the Bank is involved in the consolidation of the TARGET2 and T2S systems and is working on the traceability of cash movements between the NCBs and between the Bank’s branches. At domestic level, the Bank is involved in several IT projects seeking to strengthen cooperation with other authorities and improve the quality of the services it provides to the public.

Expenditure on property management and maintenance, included in administrative costs, increased slightly compared with 2017. The initiatives on security continued in 2018, which focused on extending the video surveillance system in the cash handling process to the Bank’s branch network and on upgrading the security systems.

Depreciation and other expenses showed a downward trend over the last five years.

THE COSTS INCURRED FOR EUROSISTEM INFRASTRUCTURE

Together with some of the other national central banks, the Bank of Italy acts as provider of services related to specific technological infrastructures of the Eurosystem. The costs incurred by the Bank for such services are included under administrative expenses and staff costs and are reimbursed by the Eurosystem. The reimbursements are recorded under *Other income* and amounted to €98 million in 2018 (€47 million in 2017; see Figure 12).

As a user of the Eurosystem infrastructure, the Bank bears the corresponding costs in proportion to its share of the ECB's capital; such costs are under administrative expenses and amounted to €37 million in 2018 (€24 million in 2017).

The Bank's staff

At 31 December 2018 the Bank's employees numbered 6,689, of which 4,474 working at the head office and 2,215 at branch offices. The total number of staff is down by 110 compared with the end of 2017. There were 226 new appointments. Terminations totalled 336 (up 14.7 per cent compared with 2017); of these 268 opted for early retirement offered to staff affected by the reorganization of the branch network, by the new personnel classification system, and by the reorganization of the banknote production function.

Table 3

Composition of the Bank's staff										
AREAS	31.12.2018					31.12.2017				
	Men	Women	Total	At branch-offices	At Head Office (1)	Men	Women	Total	At branch-offices	At Head Office (1)
Managerial and High-Level Professional Area	2,110	1,139	3,249	725	2,524	2,074	1,109	3,183	720	2,463
of which: Managing Directors and Principal Directors	76	14	90	13	77	77	11	88	13	75
Operational Area	2,100	1,306	3,406	1,490	1,916	2,220	1,358	3,578	1,543	2,035
Contract workers	12	22	34	–	34	15	23	38	–	38
Total	4,222	2,467	6,689	2,215	4,474	4,309	2,490	6,799	2,263	4,536

(1) Includes members of the staff assigned to the Financial Intelligence Unit (UIF) and to the representative offices abroad and those seconded to other organizations or on leave of absence.

As at end-2018, the managerial and high-level professional area accounted for 48.6 per cent of total staff, with a slight increase compared with 2017 (46.8 per cent). The staff's average age was 48.8 years and 36.9 per cent of the Bank's employees were women; three years ago, the average age was 49 and 36.1 per cent of employees were women. During the year, 5,155 members of staff received training, accounting for 77 per cent of the total (85 per cent including on-the-job training) for a total of about 212,800 hours of training, equal to 41 hours per person.

Other information

Banknote production and circulation

In 2018, the Bank produced 864.6 million banknotes in denominations of €20, €50, €100 and €200 for the Europa series. The total production volume, which was 25 per cent higher than the quota assigned by the ECB for the year, also included banknotes related to the residual quota for 2017. During the year, the Bank continued its research and development activities in its capacity as the Eurosystem's main R&D test-print centre. In addition, the Bank was awarded the role of Quality Tools Test Centre for two years (with the option to renew) by means of a public tender by the ECB. As a result, the Bank will serve as the Eurosystem's reference centre for the validation, monitoring and management of measurement tools used in the production of euro banknotes and the related raw materials.

On 5 March 2018, the reorganization of the banknote production function became fully effective, resulting in a more streamlined organizational structure that makes the Bank's printing works more efficient and competitive within the euro-area public sector. In addition, it was accompanied by a new work organization and adjustments to the regulatory and financial aspects of the personnel classification system in accordance with the trade union agreement signed in December 2017. The Bank also began a process of generational shift within its workforce.

In 2018, the Bank entered into a cooperation agreement with Banco de España regarding the production and circulation of banknotes. By exchanging experiences and know-how, this collaboration will encourage the testing and development of innovative solutions, the sharing of best practices and the definition of shared objectives.

The Bank's branches continue to play an important role in meeting the demand for banknotes and in ensuring that the quality of those in circulation remains high. During the year 2.6 billion banknotes were put into circulation, for a total value of €90.5 billion. The banknotes returned and checked by the Bank of Italy amounted to 2.4 billion, worth €86.9 billion; the banknotes withdrawn from circulation amounted to 0.9 billion, worth €36.7 billion.

Organizational measures

In December 2018, the last ten temporary territorial service units (TSUs) were closed.⁶ They were set up on a temporary basis in 2015 in accordance with the plan approved on 30 March of that year by the Board of Directors to ease the transition period following the closure of 22 branches. Following the implementation of the plan, the branch network now consists of 39 branches throughout Italy, down from 97 in early 2008, before the reorganization began.

⁶ The first 12 TSUs were closed in July 2016.

The reform enhanced the role of the Bank's branches in a number of areas, including the protection of bank customers, financial education, prudential supervision of financial intermediaries, the assessment of credit claims eligible for monetary policy operations, the monitoring of professional cash handlers and communication campaigns regarding the Bank's tasks and functions.

At the end of 2018, the reorganization of the Financial Supervision and Regulation function was finalized. The reform was aimed at enhancing the Bank's participation in the decision-making processes of the Single Supervisory Mechanism (SSM), intensifying coordination with other supervisory authorities and strengthening the branches' supervisory activities, taking account of changes to intermediaries' geographical distribution in Italy. The organizational changes concerning the Bank's head office were implemented in November 2018 while those concerning the branches will be implemented on a progressive basis. Specifically, with the reorganization, the branch network will play a larger role in the supervision of financial intermediaries and the prudential supervision of decentralized banks and financial intermediaries will be handled by 11 panels comprised of a head branch and one or more affiliated branches.

Environmental policy

The Bank is committed to reducing its ecological footprint. Its environmental policy objectives are set out in the Environmental Policy Document and include: the sustainable use of resources, optimal waste management, sustainable mobility, 'green' procurement, and the promotion of an environmentally friendly culture. The Environment Report describes the Bank's ecological footprint and the main measures it has adopted. Both documents are available on the Bank's website.

Disclosure of relations with subsidiary and associate companies

The Bank of Italy is the sole shareholder of Società Italiana di Iniziative Edilizie e Fondiarie (SIDIEF), a real estate company whose main activity is the management and rental of its own properties. The Bank directs and coordinates the activities of the subsidiary, principally with regard to its corporate strategy, but it does not interfere in areas of operational autonomy. A special agreement, renewed in 2017 and expiring on 31 December 2020, regulates relations between the Bank of Italy and SIDIEF and sets out the rental policies applying to employees and to the buildings used by the Bank itself. In 2018, total rentals to SIDIEF amounted to about €1 million.

The Bank of Italy also holds a 0.50 per cent participating interest in Europafi, the paper manufacturer controlled by Banque de France. The acquisition of a participating interest in Europafi by the Bank, together with other NCBs with in-house printing works, builds on the Eurosystem's willingness to have a European supplier of reference – albeit not on an exclusive basis – for watermarked paper used in-house printing works in the public sector, in order to preserve know-how, guarantee cost transparency

and strengthen the supply chain as a whole, taking account of the larger role played by paper (in terms of costs and security characteristics) in banknote production.

A shareholders' agreement sets out the relationship between shareholders with regard to their stakes in the company and the functioning of corporate bodies. Based on these agreements, the Bank of Italy, together with other NCBs, exercises control according to the rules on public contracts awarded to controlled legal persons set out in Directive 2014/24/EU ('in-house providing'). As a result, the Bank of Italy purchases from Europafi a portion of the watermarked paper it uses. This should lead to smoother procurement processes, lower costs and greater financial benefits, which translate into more favourable price conditions for the Bank of Italy compared with those obtained through open tenders. The Bank of Italy's demand for watermarked paper is not exclusively covered by direct award of contracts to Europafi.

ANNUAL ACCOUNTS

BALANCE SHEET

ASSETS	NOTE	Amounts in euros	
		31.12.2018	31.12.2017
1 GOLD AND GOLD RECEIVABLES	[1]	88,364,005,551	85,283,376,219
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	44,838,827,322	40,790,095,316
2.1 Claims on the IMF		10,657,548,281	9,480,776,424
2.2 Securities		27,691,809,623	27,240,812,570
2.3 Current accounts and deposits		6,076,822,225	4,012,440,242
2.4 Reverse operations		406,142,746	50,860,314
2.5 Other assets		6,504,447	5,205,766
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	1,142,015,469	809,230,163
3.1 Financial counterparties		1,140,700,043	800,754,188
3.1.1 Securities		231,551,267	112,256,868
3.1.2 Reverse operations		–	–
3.1.3 Other claims		909,148,776	688,497,320
3.2 General government		–	6,794,335
3.3 Other counterparties		1,315,426	1,681,640
4 CLAIMS ON NON-EURO AREA RESIDENTS		1,737,907,341	1,560,024,080
4.1 Claims on EU central banks		–	–
4.2 Securities	[4]	1,736,157,094	1,559,213,529
4.3 Other claims		1,750,247	810,551
5 LENDING TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS	[2]	244,050,370,000	251,692,120,000
5.1 Main refinancing operations		5,116,500,000	942,400,000
5.2 Longer-term refinancing operations		238,933,870,000	250,749,720,000
5.3 Fine-tuning reverse operations		–	–
5.4 Structural reverse operations		–	–
5.5 Marginal lending facility		–	–
5.6 Credits relating to margin calls		–	–
6 OTHER CLAIMS ON EURO-AREA CREDIT INSTITUTIONS	[3]	70,345,258	45,893,215
7 SECURITIES OF EURO-AREA RESIDENTS		465,778,408,760	431,800,797,198
7.1 Securities held for monetary policy purposes	[2]	392,973,683,419	357,677,002,655
7.2 Other securities	[4]	72,804,725,341	74,123,794,543
8 GENERAL GOVERNMENT DEBT	[4]	13,814,570,830	13,947,423,314
9 INTRA-EUROSYSTEM CLAIMS	[5]	53,317,294,924	47,151,049,469
9.1 Participating interest in the ECB		1,332,644,970	1,332,644,970
9.2 Claims arising from the transfer of foreign reserves to the ECB		7,134,236,999	7,134,236,999
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem		44,850,412,955	38,684,167,500
9.4 Other claims within the Eurosystem (net)		–	–
10 ITEMS IN COURSE OF SETTLEMENT		8,907,300	8,908,834
11 OTHER ASSETS	[6]	54,653,129,994	57,593,286,876
11.1 Euro-area coins		126,999,445	93,533,260
11.2 Financial assets relating to the investment of reserves and provisions	[4]	45,492,877,470	48,530,918,627
11.3 Intangible fixed assets		72,582,267	71,507,380
11.4 Tangible fixed assets		2,033,751,519	2,093,274,366
11.5 Accruals and pre-paid expenses		4,693,590,718	4,568,871,013
11.6 Deferred tax assets		1,230,192,527	1,480,878,752
11.7 Sundry		1,003,136,048	754,303,478
TOTAL		967,775,782,749	930,682,204,684

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct.

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, LORENZO DE ANGELIS, GIAN DOMENICO MOSCO, SANDRO SANDRI, DARIO VELO

BALANCE SHEET

LIABILITIES	NOTE	Amounts in euros	
		31.12.2018	31.12.2017
1 BANKNOTES IN CIRCULATION	[7]	198,089,460,600	188,368,204,400
2 LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS RELATING TO MONETARY POLICY OPERATIONS	[2]	88,702,704,513	142,581,388,513
2.1 Current accounts (covering the minimum reserve system)		80,848,182,513	109,645,746,513
2.2 Deposit facility		7,854,522,000	32,935,642,000
2.3 Fixed-term deposits		–	–
2.4 Fine-tuning reverse operations		–	–
2.5 Deposits relating to margin calls		–	–
3 OTHER LIABILITIES TO EURO-AREA CREDIT INSTITUTIONS		–	–
4 LIABILITIES TO OTHER EURO-AREA RESIDENTS	[8]	42,269,654,735	12,793,141,654
4.1 General government		31,691,229,048	6,589,159,366
4.1.1 Treasury payment account		31,633,471,422	6,550,224,106
4.1.2 Other liabilities		57,757,626	38,935,260
4.2 Other counterparties		10,578,425,687	6,203,982,288
5 LIABILITIES TO NON-EURO-AREA RESIDENTS	[9]	3,354,978,968	3,301,477,382
5.1 To EU central banks		–	–
5.2 Other liabilities		3,354,978,968	3,301,477,382
6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	300,468,542	231,770,831
6.1 Financial counterparties		–	–
6.2 General government		300,468,542	231,770,831
6.3 Other counterparties		–	–
7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	[1]	2,501,907	2,327,033
7.1 Current accounts and deposits		2,501,907	2,327,033
7.2 Other liabilities		–	–
8 COUNTERPART OF SDRs ALLOCATED BY THE IMF	[1]	7,992,605,565	7,809,789,673
9 INTRA-EUROSISTEM LIABILITIES	[5]	480,539,032,598	437,604,548,808
9.1 Liabilities in respect of debt certificates issued by the ECB		–	–
9.2 Net liabilities relating to the allocation of euro banknotes within the Eurosystem		–	–
9.3 Other liabilities within the Eurosystem (net)		480,539,032,598	437,604,548,808
10 ITEMS IN COURSE OF SETTLEMENT		29,247,504	40,471,710
11 OTHER LIABILITIES	[10]	3,554,179,125	2,861,921,603
11.1 Cashier's cheques		115,287,399	104,129,685
11.2 Accruals and income collected in advance		1,894,409,369	1,226,692,457
11.3 Sundry		1,544,482,357	1,531,099,461
12 PROVISIONS	[11]	7,546,133,321	7,401,368,946
12.1 Provisions for specific risks		472,416,652	338,573,065
12.2 Staff-related provisions		7,073,716,669	7,062,795,881
13 REVALUATION ACCOUNTS	[12]	76,556,850,862	72,963,996,604
14 PROVISION FOR GENERAL RISKS	[11]	26,713,675,075	25,213,675,075
15 CAPITAL AND RESERVES	[13]	25,884,761,539	25,612,771,806
15.1 Capital		7,500,000,000	7,500,000,000
15.2 Statutory reserves		10,645,250,618	10,373,260,885
15.3 Other reserves		7,739,510,921	7,739,510,921
16 NET PROFIT FOR THE YEAR		6,239,527,895	3,895,350,646
TOTAL		967,775,782,749	930,682,204,684

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct.

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, LORENZO DE ANGELIS, GIAN DOMENICO MOSCO, SANDRO SANDRI, DARIO VELO

PROFIT AND LOSS ACCOUNT

	NOTE	Amounts in euros	
		2018	2017
1.1 Interest income		9,078,675,788	7,904,193,630
1.2 Interest expense		-748,555,314	-960,256,189
1 NET INTEREST INCOME	[14]	8,330,120,474	6,943,937,441
2.1 Realized gains/losses arising from financial operations		3,966,796	265,801,489
2.2 Write-downs on financial assets and positions		-184,813,562	-168,807,995
2.3 Transfers to/from the provisions for general risks for exchange rate, price and credit risks		-1,500,000,000	-2,920,000,000
2 NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND TRANSFERS TO/FROM RISK PROVISIONS	[15]	-1,680,846,766	-2,823,006,506
3.1 Fee and commission income		38,740,960	34,269,861
3.2 Fee and commission expense		-16,017,379	-16,051,397
3 NET INCOME FROM FEES AND COMMISSIONS	[16]	22,723,581	18,218,464
4 INCOME FROM PARTICIPATING INTERESTS	[17]	258,556,760	212,422,647
5 NET RESULT OF THE POOLING OF MONETARY INCOME	[18]	1,234,398,266	1,233,275,945
6.1 Interest Income		1,031,212,321	1,027,737,943
6.2 Dividends from equity shares and participating interests		249,165,111	206,983,962
6.3 Realized gains/losses arising from financial operations		83,026,179	708,209,119
6.4 Write-downs on financial assets and positions		-363,235,025	-207,013,507
6.5 Other components		24,511,941	31,508,565
6 NET INCOME FROM FINANCIAL ASSETS RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS	[19]	1,024,680,527	1,767,426,082
7 OTHER TRANSFERS FROM PROVISIONS		-	-
8 OTHER INCOME	[20]	120,080,485	70,430,059
		TOTAL NET INCOME	9,309,713,327
			7,422,704,132
9.1 Staff wages and salaries		-647,821,674	-651,772,404
9.2 Social security and insurance		-165,100,299	-165,920,192
9.3 Other staff costs		-41,984,955	-40,227,719
9.4 Pensions and severance payments		-325,024,084	-340,690,331
9.5 Transfers from/to provisions for staff severance pay and pensions, contributions for the supplementary pensions fund and other expenses		-110,673,554	-145,836,783
9.6 Emoluments paid to head office and branch collegial bodies		-2,928,830	-2,988,283
9.7 Administrative expenses		-453,373,412	-443,522,127
9.8 Depreciation of tangible and intangible fixed assets		-122,560,731	-130,665,744
9.9 Banknote production services		-	-
9.10 Other expenses		-45,387,063	-43,013,174
9 EXPENSES AND SUNDRY CHARGES	[21]	-1,914,854,602	-1,964,636,757
10 OTHER TRANSFERS TO PROVISIONS		-	-
		PROFIT BEFORE TAX	7,394,858,725
			5,458,067,375
11 TAXES ON INCOME FOR THE YEAR AND ON PRODUCTIVE ACTIVITIES	[22]	-1,155,330,830	-1,562,716,729
		NET PROFIT FOR THE YEAR	6,239,527,895
			3,895,350,646

THE ACCOUNTANT GENERAL: ROBERTO RINALDI

THE GOVERNOR: IGNAZIO VISCO

Audited and found correct.

THE BOARD OF AUDITORS: GIULIANA BIRINDELLI, LORENZO DE ANGELIS, GIAN DOMENICO MOSCO, SANDRO SANDRI, DARIO VELO

NOTES TO THE ACCOUNTS

Legal basis, accounting policies and layout of the annual accounts

Legal basis of the annual accounts. – The annual accounts of the Bank of Italy are drawn up in compliance with special statutory provisions. Where these do not provide any guidance, the Bank, where applicable, follows the rules in the Civil Code and refers to the generally accepted accounting principles. The figures in the financial statement are presented in euros, while those in the notes to the accounts are given in millions of euros, unless otherwise stated.

The main statutory provisions of reference are:

- Article 8.1 of Legislative Decree 43/1998 ('Adaptation of Italian law to the provisions of the Treaty establishing the European Community for matters concerning monetary policy and the European System of Central Banks'). The Decree states that 'in drawing up its annual accounts, the Bank of Italy may adapt, in derogation from the provisions in force, its accounting and reporting criteria to comply with the rules established by the ECB pursuant to Article 26.4 of the Statute of the ESCB and with the ECB recommendations issued in this regard. The annual accounts drawn up in accordance with this paragraph, particularly as concerns the methods used in their preparation, are also valid for tax purposes.' This validity is recognized by Article 114 of Presidential Decree 917/1986 (Consolidated Income Tax Law) as amended by Legislative Decree 247/2005.

The special rules adopted by the ECB are set out in Guideline No. 34 of 3 November 2016 (published in OJ L347 of 20 December 2016), which contains provisions mainly in relation to items of the annual accounts that refer to the institutional activities of the ESCB and non-binding recommendations for the other items of the annual accounts.

On the basis of the authority granted by Article 8 of Legislative Decree 43/1998, the Bank of Italy fully applies the accounting rules and recommendations issued by the ECB, including those on the layout of the profit and loss account and the layout of the balance sheet. The latter is the same as that used for the monthly financial statement approved by the Minister of Economy and Finance pursuant to Article 8.2 of Legislative Decree 43/1998.

- the Bank's Statute, approved by the Presidential Decree of 15 February 2016, which lays down the principles and rules for the allocation of the net profit for the year and the creation of reserves and provisions.

For matters relating to the preparation of the accounts not covered by the foregoing rules, the following provisions apply:

- Legislative Decree 127/1991, as amended;
- Article 65 (transactions involving government bonds) of Law 289/2002, as amended by Decree Law 203/2005, converted by Law 248/2005.

Accounting policies. – The accounting policies applied to the main balance sheet items in the annual accounts for 2018 are described below. Where provided for by law they were agreed with the Board of Auditors.

GOLD, FOREIGN CURRENCY ASSETS/LIABILITIES, SECURITIES AND PARTICIPATING INTERESTS

Gold and foreign currency assets/liabilities

- holdings, including those consisting of securities, are valued by applying, for each currency and for gold, the method based on the daily average net cost determined in the manner established by the ECB, which requires account to be taken of operations carried out during the year but settled in the following year;
- gold and foreign currency assets/liabilities are valued on the basis of the year-end gold price and exchange rates communicated by the ECB. Unrealized gains are included in the corresponding revaluation account, while losses are covered first by earlier unrealized gains recognized on the same foreign currencies and any amount in excess is included in the profit and loss account.

Assets denominated in foreign currencies, stated in the balance sheet sub-item *Securities relating to the investment of reserves and provisions*, are not included in the net foreign exchange position but shown as a separate item.

Securities and participating interests

- each security (identified by its International Securities Identification Number – ISIN) is valued for each portfolio by applying the method of the daily average cost determined in the manner established by the ECB. In the case of bonds, account is taken of the amount of the premium/discount, which is recorded daily for those denominated in foreign currency;
- the year-end valuation is made:
 - 1) for securities held for monetary policy purposes, at amortized cost subject to impairment (lasting reduction in recoverable value with respect to book value);
 - 2) for other securities:
 - a) held to maturity, at amortized cost subject to impairment;
 - b) not held to maturity;

- i) for shares, exchange-traded funds (ETFs) and marketable bonds, at the market price available at the end of the year; for units of CIUs, at the value available at the end of the year announced by the management company. Unrealized gains are included in the corresponding revaluation accounts; losses are covered first by earlier unrealized gains on the relative security within each portfolio and any amount in excess is taken to the profit and loss account;
 - ii) for non-marketable bonds, at amortized cost subject to impairment;
 - iii) for non-marketable shares and equity interests not represented by shares, at cost subject to impairment;
- 3) participating interests that constitute permanent investments are valued at cost subject to impairment. The participating interest in the capital of the ECB is valued at cost. The Bank's accounts are not consolidated with those of investee companies as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991.

Dividends are recognized on a cash basis.

TANGIBLE FIXED ASSETS

Buildings

- are stated at cost, including improvement expenses, plus revaluations made pursuant to specific laws. The depreciation of the Bank's premises and the depreciation of investment property, unusable for other purposes without radical restructuring, are on a straight line basis using the annual rate of 4 per cent established by the ECB. Land is not depreciated.

Buildings for sale and those no longer in use or usable for the Bank's activities are not amortized and are valued at whichever is lowest of net book value and realizable value based on market prices.

Plant, furniture and equipment

- are stated at cost, including improvement expenses. They are depreciated on a straight line basis using the rates established by the ECB (plant, furniture, and equipment, 10 per cent; computers and related hardware and basic software and motor vehicles, 25 per cent). Depreciation begins in the quarter subsequent to that of acquisition both for buildings and for plant and equipment.

INTANGIBLE FIXED ASSETS

The procedures developed as part of the Eurosystem IT projects are capitalized at purchase price and, once completed, are amortized on the basis of amortization rates deemed congruent with the remaining useful life of the assets.

The costs relating to internally developed application software are recorded in the profit and loss accounts in the years in which they are incurred, even if the software's useful life covers a multi-year period.

Software licences are stated at cost and amortized on a straight line basis over the life of the contract or, where no time limit is established, over the estimated useful life.

The costs of improvements to buildings owned by third parties and leased to the Bank are amortized on a straight line basis over the remaining life of the rental contract.

Expenses of less than €10,000 are not capitalized, with the exception of those incurred for software licences.

ACCRUALS AND PREPAID EXPENSES

Accrued income and expenses are recorded in the period in which they arise. Prepaid income and expenses represent costs or revenues that arise in future periods but that are paid or received in the current accounting period. Interest accrued on foreign exchange assets and liabilities is recorded on a daily basis and included in the net foreign exchange position.

BANKNOTES IN CIRCULATION

The ECB and the euro-area NCBs, which together form the Eurosystem, issue euro banknotes (ECB Decision No. 29 of 13 December 2010 on the issue of euro banknotes, OJ L35 of 9 February 2011, as amended).

The total value of euro banknotes in circulation is allocated within the Eurosystem on the last working day of each month on the basis of the criteria set out below.

The ECB is allocated 8 per cent of the total value of euro banknotes in circulation, while the remaining 92 per cent is allocated to the NCBs according to their shares in the capital of the ECB ('capital key'). The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item *Banknotes in circulation*. The difference between the value of the banknotes allocated to each NCB and that of the banknotes it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. From the year of the cash changeover of each member state that has adopted the euro and for the five subsequent years the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in the NCBs' relative income positions with respect to previous years. The adjustments take into account the differences between the average value of banknotes in circulation of each

NCB in the reference period established by law and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual steps for five years starting from the year of the cash changeover, after which income on banknotes is allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital (ECB Decision No. 36 of 3 November 2016 on the allocation of monetary income of the national central banks of member states whose currency is the euro). The adjustments recorded in 2018 arise from the entry into the Eurosystem of the central banks of Latvia in 2014 and Lithuania in 2015; they will terminate at the end of 2019 and 2020 respectively.

The interest income and expense on intra-Eurosystem balances are cleared through the accounts of the ECB and disclosed in the profit and loss account under *Net interest income*.

The Governing Council of the ECB has ruled that the seigniorage income of the ECB arising from the 8 per cent share of banknotes allocated to the ECB and the income deriving from the securities held in connection with the SMP, CBPP3, ABSPP and PSPP must be recognized to the euro-area NCBs in full with reference to the financial year in which they accrued and are distributed in January of the following year, or later, in the form of an interim distribution of profit (ECB Decision No. 15 of 15 December 2014, OJ L53 of 25 February 2015, as amended). The seigniorage income and the income arising from the above securities purchase programmes are distributed unless they exceed the ECB's net profit for that year or the Council decides to transfer all or part to a provision for exchange rate, interest rate, credit and gold price risk. The interim distribution of ECB profit is recorded on an accrual basis in the year to which the income refers, in derogation from the cash basis applied in general to dividends.

The Governing Council of the ECB may also decide to reduce the seigniorage income for distribution by the amount of the expenses incurred in connection with the issue and handling of banknotes.

The amount distributed to the NCBs is entered in the profit and loss account under *Income from participating interests*.

INTRA-EUROSYSTEM CLAIMS AND LIABILITIES

Intra-Eurosystem balances arise mainly from cross-border payments in euros within the EU that are settled in central bank money. Most of these transactions are ordered by private individuals and settled in TARGET2 – the Eurosystem's real-time gross settlement system – giving rise to bilateral balances in the TARGET2 accounts of EU member states' central banks. These balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position with the ECB. The balance with the ECB arising from TARGET2 and the other intra-Eurosystem balances denominated in euros, including the provisional distribution of the ECB's profit to the NCBs and the result of the pooling of monetary income, are entered in the accounts as a single net position, appearing on the asset side under

Other claims within the Eurosystem (net) or on the liability side under *Other liabilities within the Eurosystem (net)*.

The net intra-Eurosystem balance arising from the allocation of euro banknotes is included among the net claims or liabilities relating to the allocation of banknotes within the Eurosystem.

The intra-Eurosystem claims arising from the subscription of the ECB's capital and the transfer of official reserves to the ECB are included under *Participating interest in the ECB* and *Claims arising from the transfer of foreign reserves to the ECB*.

PROVISIONS FOR RISKS

In determining the provisions for risks, the riskiness of each sector of the Bank's operations is taken into account in an overall assessment of adequacy.

According to the Bank of Italy's Statute, the provision for general risks also covers risks connected with the Bank's overall activity that cannot be determined individually or allocated objectively.

The riskiness of the foreign exchange position and that of the securities portfolio are estimated by the methods in use within the Eurosystem, with consideration also given to the size of the revaluation accounts.

TAX PROVISION

The tax provision includes deferred tax liabilities for IRES and IRAP and amounts arising from possible fiscal controls and disputes with the tax authorities.

STAFF-RELATED PROVISIONS

The recorded amounts are determined as follows:

- transfers to the provision for severance pay and pensions of staff hired before 28 April 1993 are included in the annual accounts under Article 3 of the relevant Rules for an amount that comprises the severance pay accrued at the end of the year, the mathematical reserves for the disbursements to pensioners, and those corresponding to the situation of staff having entitlement;
- the provision for grants to Bank of Italy pensioners and their surviving dependants is funded, as a rule, by the income arising from investment of the corresponding amount, in accordance with Article 24 of the Rules governing staff severance pay and pensions;
- transfers to the provisions for measures connected with the reorganization of the Bank's branch network and with voluntary early retirement for staff at the head office and at the branches not scheduled to be closed are calculated on the basis of the expected costs;

- transfers to the provision for severance pay for staff who do not participate in pension funds or who pay only a part of the contributions for retirement benefits are determined in accordance with Law 297/1982;
- transfers arising from lump-sum disbursements to staff hired on or after 28 April 1993 who joined the defined-contribution supplementary pension fund to be settled upon their leaving service. These transfers are funded on the basis of measures agreed upon with the trade unions and partly tied to the achievement of certain productivity, quality, efficiency and effectiveness targets;
- the provision for staff costs includes the costs accrued but not paid at year-end.

OTHER ASSETS AND LIABILITIES

Receivables are stated at their nominal value, except for diminutions in value regarding particular situations attributable to the counterparty.

Pursuant to Recommendation ECB/1999/NP7 of the ECB Governing Council, banknote production costs are not included in the valuation of stocks but are taken in full to the profit and loss account in the year in which they are incurred.

Deferred tax assets and liabilities are included in the financial statements on the basis of their presumable tax effect in future years. The recognition of deferred tax assets in the balance sheet is based on the reasonable expectation of recovering them in the future. The amount of deferred tax assets and liabilities is calculated using the tax rates that are expected to be in force at the time in which the temporary differences that have generated them are reversed. Deferred tax assets include those deriving from the application of Article 65.2 of Law 289/2002, as amended by Decree Law 203/2005, converted by Law 248/2005.

The items *Other assets* and *Other liabilities* include, respectively, the investments and separate assets of the defined-contribution supplementary pension fund created for staff hired on or after 28 April 1993. The fund is invested in financial instruments, which are valued at year-end market prices. The resulting revaluation gains (losses) are treated as revenue (expense) and, like other operating revenue (expense), add to (subtract from) the fund's assets.

Other liabilities also includes the amount of IRES and IRAP tax payables, net of payments on account, due for the reference period, determined on the basis of a realistic estimate of the foreseeable costs under the tax rules in force. Any excess payments on account are recorded correspondingly under *Other assets*.

Other liabilities also includes the special item made up of allocations of the net profit in accordance with Article 38(2)(b) of the Statute, whose purpose is to stabilize

over time the amount of net profit paid to the shareholders under the dividend policy in force.

Securities lending transactions are entered in the balance sheet only if collateral is in the form of a cash deposit in an account of the central bank.

The other components are stated at nominal value or at cost depending on their nature.

COMMITMENTS, COLLATERAL GRANTED AND OTHER OFF-BALANCE-SHEET ACCOUNTS

Commitments, collateral granted and other off-balance-sheet accounts are shown and explained in the notes to the accounts.

Commitments include the following types of operations:

Forward purchases and sales of foreign currency

- forward purchases and sales are recorded in off-balance-sheet accounts from the trade date to the settlement date at the spot exchange rate of the transaction. The difference between the values at the spot and forward exchange rates is recorded, on a pro rata temporis basis, under interest in the profit and loss account;
- forward sales of the currencies included in the special drawing rights (SDR) basket to cover the SDR position are valued in conjunction with the latter and therefore do not affect the net position in the single currencies.

Foreign currency swaps

- forward and spot purchases and sales are recorded in the off-balance-sheet accounts from the trade date to the settlement date at the spot exchange rate of the transaction. The difference between the values at the spot and forward exchange rates is recorded, on a pro rata temporis basis, under interest in the profit and loss account.

At the time of the settlement of forward purchases and sales of foreign currency and foreign currency swaps, the entries in the off-balance-sheet accounts are transferred to the appropriate items of the balance sheet.

Futures contracts

- are recorded in the off-balance-sheet accounts at the trade date at their notional value and those denominated in foreign currency are translated at the end of the year at the exchange rate communicated by the ECB. Initial margins in cash are recorded in the balance sheet among claims, those in securities are recorded in the off-balance-sheet accounts. Positive and negative daily variation margins are communicated by the clearer and taken to the

profit and loss account; those denominated in foreign currency are converted at the exchange rate of the day.

Forward foreign currency transactions and other financial instruments involving an exchange of one currency for another at a future date are included in the calculation, at the spot settlement date, of the outstanding net foreign currency positions for the purposes of applying the method of average cost determined daily and of determining the results of exchange rate valuation and foreign exchange trading.

Commitments in respect of foreign currency transactions are shown at the contractually agreed exchange rate.

Other off-balance-sheet accounts include:

- bonds of third parties denominated in euros held on deposit, stated at their nominal value; other securities are stated on a quantity basis, and other kinds are stated at face value or at conventional value;
- the total balance sheet assets of the National Resolution Fund (NRF), set up within the Bank of Italy under Article 78 of Legislative Decree 180/2015. The NRF has its own capital, which is independent and separate in all respects from that of the Bank but is managed by the Bank in its capacity as national resolution authority. The NRF issues an annual report, published in conjunction with the Bank's annual accounts.

Items denominated in foreign currency are converted at the year-end exchange rates communicated by the ECB.

Notes on the items of the balance sheet

The items *Gold, assets and liabilities denominated in foreign currency, Monetary policy operations* and *Securities portfolio* are aggregated according to their purpose or type of operation. Comments on the other items follow the layout of the balance sheet.

[1] Gold, assets and liabilities denominated in foreign currency

The value of gold amounted to €88,364 million at the end of 2018. The increase of €3,081 million over the end of 2017, matched by the revaluation accounts on the liabilities side, was entirely due to the rise in the metal's price. Compared with the end of 2017, gold appreciated by 3.6 per cent (from €1,081.881 to €1,120.961 per ounce). The holding remained unchanged at 79 million ounces, equal to 2,452 tons.

Table 4

Gold, assets and liabilities denominated in foreign currency (1) (millions of euros)			
	31.12.2018	31.12.2017	Change
Gold (Item 1)	88,364	85,283	3,081
Net assets denominated in foreign currency	37,685	33,555	4,130
Assets denominated in foreign currency	45,981	41,599	4,382
Claims on the IMF (Sub-item 2.1)	10,658	9,481	1,177
Securities (Sub-items 2.2, 3.1.1, 3.2 and 3.3)	27,925	27,361	564
Current accounts and deposits (Sub-items 2.3 and 3.1.3)	6,986	4,701	2,285
Reverse operations (Sub-items 2.4 and 3.1.2)	406	51	355
Other assets (Sub-item 2.5)	6	5	1
Liabilities denominated in foreign currency	8,296	8,044	252
Counterpart of SDRs allocated by the IMF (Item 8)	7,993	7,810	183
Advances of general government departments (Sub-item 6.2)	300	232	68
Current accounts and deposits (Sub-item 7.1)	3	2	1

(1) The figures do not include financial assets denominated in foreign currency relating to the investment of the overall amount of own funds as they constitute a separate foreign currency position.

The value of net assets denominated in foreign currency increased from €33,555 million to €37,685 million (12.3 per cent) as a result of both the increase in the holdings and the appreciation of some of the major foreign currencies in the portfolio against the euro.⁷

Table 5

Composition of net foreign currency assets (millions of euros)			
	31.12.2018	31.12.2017	Change
US dollars	23,940	21,874	2,066
Pounds sterling	2,859	2,918	-59
Japanese yen	4,991	4,045	946
Australian dollars	1,742	1,849	-107
Canadian dollars	912	931	-19
Chinese renminbi	480	173	307
South Korean won	93	91	2
Other currencies	3	3	-
Net assets vis-à-vis the IMF (1)	2,665	1,671	994
Total	37,685	33,555	4,130

(1) Denominated in SDRs.

⁷ Compared with the end of the previous year, the currencies that appreciated were the US dollar from \$1.1993 to \$1.1450, the Japanese yen from ¥135.01 to ¥125.85, and SDRs from €1.1876 to €1.2154. In contrast, the currencies that depreciated were the Australian dollar from A\$1.5346 to A\$1.6220, the Canadian dollar from C\$1.5039 to C\$1.5605, the pound sterling from £0.88723 to £0.89453 and the Chinese renminbi from ¥7.8044 to ¥7.8751; the Korean won remained essentially stable, moving from ₩1,279.61 to ₩1,277.93.

There were unrealized gains at the end of the year recognized in the revaluation accounts for €4,504 million and unrealized losses amounting to €160 million, of which €29 million covered by the corresponding revaluation accounts and €131 million, on the Australian and Canadian dollars, taken to the profit and loss account (Table 6).

Table 6

Unrealized foreign exchange gains and losses (millions of euros)					
	Revaluation accounts at 31 December 2017	Gains reported in the revaluation accounts	Losses reported		Revaluation accounts at 31 December 2018
			in the revaluation accounts	in the profit and loss account	
Gold	65,862	3,081	–	–	68,943
US dollars	2,058	1,059	–	–	3,117
Pounds sterling	148	–	-25	–	123
Japanese yen	658	285	–	–	943
Australian dollars	–	–	–	-101	–
Canadian dollars	4	–	-4	-30	–
Special Drawing Rights (SDRs) (1)	137	78	–	–	215
Chinese renminbi	–	–	–	–	–
South Korean won	1	1	–	–	2
Total	68,868	4,504	-29	-131	73,343

(1) Includes the valuation of the related hedging operations.

Claims on the IMF increased by €1,177 million (Table 7). The change was mainly due to drawdowns by the IMF from the related holdings and the appreciation of SDRs against the euro, partly offset by the decrease in the Bank's loans to the IMF on behalf of the Italian government under the New Arrangements to Borrow (NAB; see the box 'The IMF position in the Bank of Italy's balance sheet').

Table 7

Accounts with the International Monetary Fund (millions of euros)			
	31.12.2018	31.12.2017	Change
Assets			
Claims on the IMF (Sub-item 2.1)	10,658	9,481	1,177
a) Reserve Tranche Position in the IMF	2,380	1,270	1,110
Quota in the IMF	18,316	17,897	419
IMF holdings	-15,936	-16,627	691
b) Participation in the PRGT	902	943	-41
c) Participation in the NAB	637	906	-269
d) Special Drawing Rights (SDRs)	6,739	6,362	377
Liabilities			
Counterpart of SDRs allocated by the IMF (Item 8)	7,993	7,810	183

THE IMF IN THE BANK OF ITALY'S BALANCE SHEET

Italy's position vis-à-vis the International Monetary Fund is recorded in the Bank of Italy's balance sheet according to arrangements drawn up with the Ministry of Economy and Finance. Specifically:

- a) Italy's reserve tranche position, subscribed in gold, SDRs and national currency and amounting to €2,380 million at the end of 2018, represents the difference between Italy's participation quota in the Fund (€18,316 million, equal to SDR15,070 million) and the IMF's holdings deposited in its account with the Bank (€15,936 million, equal to SDR13,112 million) which are funded by the participation quota subscribed over time in national currency.
- b) The contribution to the Poverty Reduction and Growth Trust (PRGT), amounting to €902 million (SDR742 million), is used to grant long-term loans on favourable terms to countries facing structural balance of payments difficulties.
- c) Loans to the IMF by the Bank of Italy on behalf of the Italian government under the NAB, amounting to €637 million (SDR524 million), are used to strengthen the IMF's lending capacity to cope with the financial crisis.
- d) Since 1969 the IMF has allocated SDRs to Italy in proportion to its participation quota. The last allocations made in 2009 brought Italy's total holding to SDR6,576 million. Following a series of withdrawals, at the end of 2018 Italy's holdings amounted to SDR5,545 million, equal to €6,739 million.

The amount of SDR6,576 million is entered as a liability vis-à-vis the IMF under the item *Counterpart of SDRs allocated by the IMF* (Item 8), totalling €7,993 million at the end of the year.

The portfolio of securities denominated in foreign currency and classified as not held to maturity amounts to €27,925 million (Table 8). The portfolio mostly consists of bonds and certificates of deposit issued by foreign government bodies and international organizations. Of the total portfolio, 70 per cent is denominated in US dollars, 12 per cent in Japanese yen, 8 per cent in pounds sterling, 5 per cent in Australian dollars, 3 per cent in Canadian dollars and 2 per cent in Chinese renminbi.

The other foreign currency assets (Sub-items 2.3, 2.4, 2.5, 3.1.2 and 3.1.3), denominated primarily in US dollars, Japanese yen and pounds sterling, consist of fixed-term deposits (€4,943 million), current accounts (€2,043 million), reverse operations (€406 million) and foreign banknotes (€6 million).

Among the other liabilities denominated in foreign currency, mainly in US dollars, the most important are the liabilities to general government (€300 million, Sub-item 6.2) in respect of advances received for the management of foreign currency cross-border payments and collections.

Table 8

Movements in securities denominated in foreign currency (millions of euros)					
	Non-euro-area residents (1)		Euro-area residents (2)		Total
	Bonds	Units of CIUs	Bonds	Units of CIUs	
Opening balance	26,788	452	121	–	27,361
Increases	44,642	20	174	–	44,836
Purchases	43,669	–	156	–	43,825
Net price revaluation (3)	52	13	–	–	65
Net exchange rate revaluation (3)	854	7	18	–	879
Premiums and discounts	67	–	–	–	67
Decreases	-44,210	–	-62	–	-44,272
Sales and redemptions	-43,978	–	-62	–	-44,040
Net losses	-75	–	–	–	-75
Write-downs due to price changes (4)	-44	–	–	–	-44
Write-downs due to exchange rate changes (4)	-113	–	–	–	-113
Closing balance	27,220	472	233	–	27,925

(1) Sub-item 2.2. – (2) Sub-items 3.1.1, 3.2 and 3.3. – (3) Increase/decrease in revaluation accounts. – (4) Recognized in the profit and loss account.

[2] Monetary policy operations

The amounts outstanding at 31 December 2018 and the average for the year of operations carried out by the Bank of Italy within the framework of the single monetary policy of the Eurosystem are shown in Table 9.

Table 9

Monetary policy operations (millions of euros)						
	Balances			Averages		
	31.12.2018	31.12.2017	Change	2018	2017	Change
Lending to euro-area credit institutions (Item 5) (1)						
5.1 Main refinancing operations	5,116	942	4,174	1,836	5,055	-3,219
5.2 Longer-term refinancing operations	238,934	250,750	-11,816	245,619	236,649	8,970
5.3 Fine-tuning reverse operations	–	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–	–
5.5 Marginal lending facility	–	–	–	–	3	-3
5.6 Credits relating to margin calls	–	–	–	–	–	–
Total	244,050	251,692	-7,642	247,455	241,707	5,748
Securities held for monetary policy purposes (Sub-item 7.1)						
	392,974	357,677	35,297	378,185	306,144	72,041
Liabilities to euro-area credit institutions (Item 2)						
2.1 Current accounts (covering the minimum reserve system)	80,848	109,646	-28,798	87,565	81,016	6,549
2.2 Deposit facility	7,855	32,935	-25,080	19,805	18,863	942
2.3 Fixed-term deposits	–	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–	–
2.5 Deposits relating to margin calls	–	–	–	14	15	-1
Total	88,703	142,581	-53,878	107,384	99,894	7,490

(1) At 31 December 2018 the collateral for lending to euro-area credit institutions, deposited with the Bank, amounted to €308 billion (€321 billion at the end of 2017).

Refinancing operations to credit institutions (Item 5) amounted to €244,050 million at the end of 2018, a slight decline compared with end-2017. In contrast, the average values for the year increased moderately and the composition continued to shift towards longer-term refinancing operations. At year-end, lending to credit institutions consisted almost exclusively of longer-term refinancing operations (98 per cent); for the average values, that share rose to more than 99 per cent. Nearly all the longer-term refinancing operations were TLTRO2 operations carried out in previous years. The share of total euro-area refinancing operations held by Italian counterparties was 33 per cent, substantially unchanged compared with 2017.

Securities held for monetary policy purposes (Sub-item 7.1) rose from €357,677 million to €392,974 million on account of the purchases made as part of the APP, especially under the PSPP (Table 10).

Table 10

Movements in securities held for monetary policy purposes (Sub-item 7.1) (millions of euros)							
	Bonds (1)						Total
	CBPP1	CBPP2	CBPP3	SMP	PSPP	CSPP	
Opening balance	749	761	37,854	14,704	288,843	14,766	357,677
Increases	–	–	5,231	110	40,783	5,407	51,531
Purchases	–	–	5,231	–	40,783	5,407	51,421
Net premiums and discounts	–	–	–	110	–	–	110
Decreases	-75	-204	-2,970	-2,745	-9,623	-617	-16,234
Sales and redemptions	-75	-204	-2,540	-2,745	-6,380	-408	-12,352
Net losses	–	–	–	–	–	-1	-1
Net premiums and discounts	–	–	-430	–	-3,243	-208	-3,881
Closing balance	674	557	40,115	12,069	320,003	19,556	392,974

(1) The first two CBPPs were introduced in 2009 and 2011 and closed in 2010 and 2012 respectively. The SMP was rolled out in 2010 and ended in 2012.

In 2018 the Bank sold securities included in the CSPP portfolio for an amount equal to €55 million and securities included in the PSPP portfolio for an amount equal to €6 million. The sales, agreed at Eurosystem level, were necessary to comply with the limits set by the programmes, which had been exceeded owing to buybacks of securities by their issuer. At the end of the year, the market value of the securities held for monetary policy purposes amounted to €382,812 million. Their market value is €10,162 million lower than their book value (-2.6 per cent), largely on account of the public securities in the PSPP portfolio.

Table 11

Comparison with market price of securities held for monetary policy purposes (Sub-item 7.1) <i>(millions of euros)</i>						
	31.12.2018		31.12.2017		Change	
	Amortized cost	Market price	Amortized cost	Market price	Amortized cost	Market price
CBPP1	674	719	749	829	-75	-110
CBPP2	557	603	761	828	-204	-225
CBPP3	40,115	40,075	37,854	38,483	2,261	1,592
SMP	12,069	13,054	14,704	16,433	-2,635	-3,379
PSPP	320,003	309,642	288,843	288,260	31,160	21,382
CSPP	19,556	18,719	14,766	14,919	4,790	3,800
Total	392,974	382,812	357,677	359,752	35,297	23,060

Generally, the risks associated with monetary policy operations are shared among the NCBs subject to a decision of the ECB Governing Council (see the box ‘Rules on risk sharing in monetary policy operations’). In accordance with the Governing Council’s decisions, all securities acquired through the existing monetary policy programmes are valued at amortized cost subject to impairment in accordance with Eurosystem criteria.

Based on the annual impairment test conducted at Eurosystem level on the securities purchased under the CSPP, the Governing Council deemed it appropriate to establish a provision in the amount of €161 million to cover the credit risks relating to an impaired security (see also ‘Provision for general risks and other provisions’). The Bank recorded its share of the provision, equal to €28 million, in its balance sheet (see also ‘Provision for general risks and other provisions’). The annual impairment tests on the securities purchased under the CBPP3 also found an impairment indicator on a security issued by a credit institution that faced financial difficulties in 2018. The Governing Council of the ECB deemed that the identified impairment indicator had not affected the estimated future cash flows and therefore decided not to recognize impairment losses.

With regard to *liabilities to credit institutions*, accounts held by banks, including deposits made in accordance with the minimum reserve requirements, declined from €109,646 million to €80,848 million at the end of 2018, while the annual average amount increased from €81,016 million to €87,565 million. Similarly, overnight deposits recorded a decline at the end of the year, while the annual average amount increased slightly. In 2018, the Bank made fixed-term deposits but did not activate any fine-tuning reverse operations.

[3] Other claims on euro-area credit institutions

Item 6 on the asset side, amounting to €70 million (€46 million in 2017), includes current accounts in connection with the management of cross-border euro payments and collections for government bodies (€34 million) and other current accounts denominated in euros (€36 million).

[4] Securities portfolio

Table 12

Securities portfolio (millions of euros)			
	31.12.2018	31.12.2017	Change
A. SECURITIES DENOMINATED IN EUROS (Sub-items 4.2 and 7.2 and Item 8)			
1. Securities held to maturity	80,796	81,112	-316
a) Government securities (Sub-item 7.2)	65,330	65,497	-167
b) Other bonds (Sub-items 4.2 and 7.2)	1,651	1,668	-17
c) Government securities assigned to the Bank of Italy (Item 8)	13,815	13,947	-132
2. Securities other than those held to maturity	7,560	8,518	-958
a) Government securities (Sub-item 7.2)	6,424	7,615	-1,191
b) Other bonds (Sub-items 4.2 and 7.2)	1,136	903	233
Total A	88,356	89,630	-1,274
B. SECURITIES RELATING TO THE INVESTMENT OF RESERVES AND PROVISIONS (Sub-item 11.2)			
1. Securities held to maturity and other permanent investments	36,183	38,200	-2,017
a) Government securities	35,414	37,183	-1,769
- of which: denominated in foreign currency	1,495	2,453	-958
b) Other bonds	184	432	-248
c) Shares and participating interests	585	585	-
- in subsidiary companies and entities	527	527	-
- in other companies and entities	3	3	-
- in other companies and entities denominated in foreign currency	55	55	-
2. Securities other than those held to maturity and other permanent investments	9,306	10,293	-987
a) Government securities	255	258	-3
- of which: denominated in foreign currency	255	242	13
b) Shares and participating interests	7,723	8,642	-919
- in other companies and entities	7,723	8,642	-919
c) ETFs and shares/units of CIUs	1,328	1,393	-65
- of which: denominated in foreign currency	1,328	1,393	-65
Total B	45,489	48,493	-3,004
Total (A+B)	133,845	138,123	-4,278

Securities denominated in euros (Total A; Table 13) consist exclusively of bonds and are detailed in:

- Sub-item 4.2 (*Claims on non-euro-area residents – securities*), which consists mostly of bonds issued by international organizations;
- Sub-item 7.2 (*Securities of euro-area residents – other securities*), which consists mainly of bonds issued by the Italian government and by other euro-area governments;
- Item 8 (*General government debt*), which contains the Italian government securities assigned to the Bank following the bond conversion under Law 289/2002 and those arising from the termination of the management of mandatory stockpiling.

Table 13

A. Movements in securities denominated in euros						
<i>(millions of euros)</i>						
	Bonds					Total
	held to maturity			other than those held to maturity		
	(Sub-item 4.2)	(Sub-item 7.2)	(Item 8)	(Sub-item 4.2)	(Sub-item 7.2)	
Opening balance	1,076	66,089	13,947	483	8,035	89,630
Increases	–	7,282	–	398	1,800	9,480
Purchases	–	6,979	–	396	613	7,988
Transfers	–	303	–	–	1,165	1,468
Net gains	–	–	–	2	22	24
Decreases	-13	-7,453	-132	-208	-2,948	-10,754
Sales and redemptions	–	-5,597	-50	-199	-2,732	-8,578
Transfers	–	-1,297	–	–	–	-1,297
Net revaluations (1)	–	–	–	-4	-123	-127
Net premiums and discounts	-13	-559	-82	-4	-84	-742
Write-downs (2)	–	–	–	-1	-9	-10
Closing balance	1,063	65,918	13,815	673	6,887	88,356

(1) Increase/decrease in revaluation accounts. – (2) Recognised in the profit and loss account.

Securities relating to investments of reserves and provisions (Total B; Table 14) are denominated in euros and in foreign currency (mainly US dollars). The Bank's foreign currency investments relating to reserves and provisions constitute a separate foreign currency position with respect to the other foreign currency assets and liabilities (see *Gold, assets and liabilities denominated in foreign currency*).

At year-end, 79 per cent of the portfolio consisted of bonds, mostly government securities, and 21 per cent of shares, participating interests, ETFs and shares/units of CIUs. Almost all of the investments in equity instruments were listed securities. The majority of issuers were from euro-area countries.

Table 14

B. Movements in securities relating to the investment of reserves and provisions (Sub-item 11.2) (millions of euros)						
	Bonds		Equity shares and other participating interests		ETFs and shares/units of CIUs	Total
	Held to maturity	Other than those held to maturity	Permanent investments	Temporary investments		
Opening balance	37,615	258	585	8,642	1,393	48,493
Increases	1,997	14	–	568	50	2,629
Purchases (1)	1,582	1	–	485	10	2,078
Transfers	352	–	–	–	–	352
Net gains	–	–	–	83	15	98
Exchange rate adjustments (2)	63	11	–	–	25	99
Net premiums and discounts	–	2	–	–	–	2
Decreases	-4,014	-17	–	-1,487	-115	-5,633
Sales and redemptions (1)	-3,215	-15	–	-352	-30	-3,612
Transfers	-523	–	–	–	–	-523
Net price revaluation (3)	–	-1	–	-773	-85	-859
Net premiums and discounts	-276	–	–	–	–	-276
Write-downs due to price changes (4)	–	-1	–	-362	–	-363
Closing balance	35,598	255	585	7,723	1,328	45,489

(1) Includes the adjustments to the average cost of currency. – (2) Unrealized gains and losses that are reported, net of the valuation of the relative hedges of exchange rate risk, in the revaluation accounts or among write-downs in the profit and loss account. – (3) Increase/decrease in revaluation accounts. – (4) Recognized in the profit and loss account.

The majority of the bond portfolio (94 per cent) comprises securities held to maturity and is therefore valued at amortized cost subject to impairment based on Eurosystem criteria. The annual impairment tests conducted on these securities do not show evidence of any losses. The portfolio contains securities whose book value (€29,051 million) is higher than the market value at year-end (€27,570 million). However, if all listed financial instruments were valued at end-of-year market prices, the total value of the portfolio would be €140,888 million, higher than the book value.

Table 15

Participating interests in subsidiary and associated companies					
	At end-2018			Subsidiary or associated company data for 2017 (millions of euros)	
	Number of shares held	% of capital held	Book value (millions of euros)	Net equity (1)	Profit
Società Italiana di Iniziative Edilizie e Fondiarie SpA - Rome (Capital of €507,000,000 represented by 507,000 shares with a par value of €1,000 each)	507,000	100	527	560	4
EuropaFi Sas - Longues, Vic-le-Comte, France (Capital of €133,000,000 represented by 1,330,000 shares with a par value of €100 each)	6,650	0.5	0.7	144	4

(1) Includes the profit or loss for the year.

The Bank of Italy is the sole shareholder of SIDIEF. The Bank's accounts are not consolidated with those of investee companies as the Bank is not among the entities listed in Article 25 of Legislative Decree 127/1991. Moreover, consolidation would be immaterial for the purpose of providing a true and fair view of the Bank's balance sheet, financial position and profit and loss account.

The Bank of Italy also holds a 0.5 per cent participating interest in Europafi Sas. Based on shareholders' agreements, the Bank of Italy, together with other Eurosystem NCBs, exercises control according to the rules on public contracts awarded to controlled legal persons set out in Directive 2014/24/EU ('in-house providing'). The other participating interests held as permanent investments include shares in the Bank for International Settlements, which are denominated in SDRs, valued at cost and translated at historic exchange rates. The Bank's stake is equal to 9.4 per cent of the BIS's capital.

[5] Intra-Eurosystem claims and liabilities

Table 16

Positions with the ECB and the other euro-area NCBs (millions of euros)			
	31.12.2018	31.12.2017	Change
Assets			
9.1 Participating interest in the ECB	1,333	1,333	–
9.2 Claims arising from the transfer of foreign reserves to the ECB	7,134	7,134	–
9.3 Net claims relating to the allocation of euro banknotes within the Eurosystem	44,850	38,684	6,166
9.4 Other (net) claims within the Eurosystem	–	–	–
Total	53,317	47,151	6,166
Liabilities			
9.2 Net claims relating to the allocation of euro banknotes within the Eurosystem	–	–	–
9.3 Other liabilities within the Eurosystem (net)	480,539	437,605	42,934
Total	480,539	437,605	42,934

On the asset side:

- the *Participating interest in the ECB* remained unchanged at €1,333 million.⁸ *Claims arising from the transfer of foreign reserves to the ECB*,⁹ which are computed according to the Bank's subscription, also remained stable at €7,134 million;

⁸ Pursuant to Article 28 of the Statute of the ESCB, the NCBs are the sole subscribers and holders of the capital of the ECB. Subscriptions are determined on the basis of the key established in Article 29 of the Statute and adjusted every five years or when the composition of the ESCB changes. At the end of 2018 the Bank of Italy's share of the ECB's subscribed capital amounted to 12.3108 per cent; after the five-year adjustment on 1 January 2019, the share equalled 11.8023 per cent. Considering only the NCBs belonging to the Eurosystem, it amounted to 17.4890 per cent at the end of the year; on 1 January 2019, following the five-year adjustment, it fell to 16.9530 per cent.

⁹ Claims arising from the transfer of foreign reserves to the ECB represent the interest-earning claim denominated in euros recorded at the start of the third stage of the EMU following the transfer of gold, foreign securities and foreign currencies to the ECB in proportion to the Bank's share of the ECB's capital, as in the case of the other Eurosystem NCBs.

- *Net claims relating to the allocation of euro banknotes within the Eurosystem* amounted to €44,850 million (see ‘Banknotes in circulation’).

On the liability side:

- *Other liabilities within the Eurosystem (net)* amounted to €480,539 million (compared with €437,605 in 2017) and represent the Bank’s net position vis-à-vis the Eurosystem, mainly deriving from the operation of the TARGET2 system. The latter gave rise to an overall debit position of €481,998 million at the end of 2018 (compared with €439,023 million in 2017). At the end of the year the overall position is reduced by (a) a claim of €208 million (€173 million in 2017) for the ECB interim profit distribution pertaining to 2017 and (b) a claim of €1,251 million (€1,245 million in 2017) deriving from the net result of the pooling of monetary income for the year (See ‘Notes on the items of the profit and loss account’ – *Monetary income*).

[6] Other assets

This item consists mainly of investments in securities of reserves and provisions (see ‘Securities portfolio’). The composition of this item is shown in Table 17.

Table 17

Other assets (Item 11) (millions of euros)			
	31.12.2018	31.12.2017	Change
11.1 Euro-area coins	127	93	34
11.2 Financial assets relating to the investment of reserves and provisions (1)	45,493	48,531	-3,038
11.3 Intangible fixed assets	72	72	–
11.4 Tangible fixed assets	2,034	2,093	-59
11.5 Accruals and prepaid expenses	4,694	4,569	125
11.6 Deferred tax assets	1,230	1,481	-251
11.7 Sundry	1,003	754	249
Other investments for staff severance pay and pensions	91	100	-9
Supplementary pension fund	542	520	22
Other components	370	134	236
Total	54,653	57,593	-2,940

(1) The balance at 31 December 2018 is composed of securities amounting to €45,489 million and reverse operations totalling €4 million.

The composition of *Intangible fixed assets* (Sub-item 11.3) and movements during the year are shown in Table 18; *Tangible fixed assets* are shown in Tables 19 and 20. The year-end market value of the buildings owned by the Bank is estimated to be €3,585 million (€3,553 million in 2017).

Table 18

Movements in intangible fixed assets (Sub-item 11.3) (millions of euros)				
	Procedures (1)	Multi-year software licence fees	Assets under development and related advances (1)	Total
Opening balance	62	9	1	72
Increases	10	7	11	28
Purchases and improvement costs	–	7	11	18
Transfers	10	–	–	10
Decreases	-9	-9	-10	-28
Amortization	-9	-9	–	-18
Transfers	–	–	-10	-10
Closing balance	63	7	2	72

(1) Relating to procedures developed as part of the Eurosystem's IT projects.

Table 19

Movements in tangible assets (property) (millions of euros)							
	Premises		Investment property for allocations to severance and pension provision (1)		Other property (1)		Total
	Buildings	Land (2)	Buildings	Land (2)	Buildings	Land (2)	
Opening balance (gross)	2,795	914	6	1	516	87	4,319
Accumulated depreciation	-2,004	–	-2	–	-347	–	-2,353
Opening balance (net)	791	914	4	1	169	87	1,966
Increases	–	–	–	–	5	3	8
Transfers (cost)	–	–	–	–	16	3	19
Transfers (accumulated depreciation)	–	–	–	–	-11	–	-11
Decreases	-83	-3	–	–	-13	-5	-104
Sales and/or disposals (cost)	–	–	–	–	-20	-3	-23
Sales and/or disposals (accumulated depreciation)	–	–	–	–	11	–	11
Depreciation	-78	–	–	–	–	–	-78
Transfers (cost)	-16	-3	–	–	–	–	-19
Transfers (accumulated depreciation)	11	–	–	–	–	–	11
Other changes (cost)	–	–	–	–	-4	-2	-6
Closing balance (gross)	2,779	911	6	1	508	85	4,290
Accumulated depreciation	-2,071	–	-2	–	-347	–	-2,420
Closing balance (net)	708	911	4	1	161	85	1,870

(1) Buildings/land for sale and/or no longer in use or usable for the Bank's activities. – (2) Land, including that on which buildings stand, is not depreciated.

Table 20

Movements in tangible fixed assets (other) (millions of euros)					
	Equipment, furniture & furnishings	Plant	Coins and collections	Assets under development and related advances	Total
Opening balance (gross)	203	559	2	17	781
Accumulated depreciation	-169	-485	–	–	-654
Opening balance (net)	34	74	2	17	127
Increases	5	25	–	39	69
Purchases and improvement costs	5	20	–	39	64
Transfers (cost)	–	5	–	–	5
Decreases	-10	-17	–	-5	-32
Sales and/or disposals (cost)	-2	-2	–	–	-4
Sales and/or disposals (accumulated depreciation)	2	2	–	–	4
Depreciation	-10	-17	–	–	-27
Transfers (cost)	–	–	–	-5	-5
Closing balance (gross)	206	582	2	51	841
Accumulated depreciation	-177	-500	–	–	-677
Closing balance (net)	29	82	2	51	164

Accruals and prepaid expenses (Sub-item 11.5) are detailed in Table 21.

Table 21

Accruals and prepaid expenses (Sub-item 11.5) (millions of euros)			
	31.12.2018	31.12.2017	Change
Accrued income	4,669	4,554	115
Interest accrued on securities denominated in euros	4,538	4,428	110
Interest accrued on monetary policy deposits	9	9	–
Interest accrued on securities denominated in foreign currencies	94	104	-10
Interest accrued on other foreign currency assets	27	12	15
Other	1	1	–
Prepaid expenses	25	15	10
Administrative expenses	25	15	10
Total	4,694	4,569	125

The composition of *Deferred tax assets* is detailed in Table 22.

Table 22

Deferred tax assets (millions of euros)								
	31.12.2018				31.12.2017			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Tax loss for 2002	3,261	897	–	897	4,835	1,329	–	1,329
Staff costs accrued but not paid	250	69	14	83	272	75	15	90
Civil law depreciation - not yet tax deducted (Revaluation reserve under Law 266/2005) (1)	–	–	–	–	142	39	8	47
Gap between the civil law value and the tax value of the equity shares portfolio (2)	878	241	–	241	–	–	–	–
Other	29	8	1	9	44	12	3	15
Total	4,418	1,215	15	1,230	5,293	1,455	26	1,481

(1) Starting in 2018, deferred taxes are recorded for all the Bank's buildings, not only for those held for sale. They are calculated on the net balance of the temporary differences. In 2018 this balance generated deferred tax liabilities; therefore the deferred tax assets included in previous years in *Civil law depreciation - not yet tax deducted (Revaluation reserve under Law 266/2005)* and those on write-downs, included in *Other*, were used to offset the deferred tax liabilities (see Table 27). – (2) Gaps are almost entirely due to non-deductible civil law write-downs.

Deferred tax assets (Sub-item 11.6) show a net decrease of €251 million, being the combined effect of:

- a decrease of €432 million as a result of offsetting the remaining tax loss for 2002 against taxable income for 2018;
- an increase of €241 million as a result of the recognition of deferred tax assets on the gap between the tax value and civil law value of the Bank's equity shares portfolio, now made possible by the availability of reliable estimates of the recovery times for the related temporary differences;
- the net decline of €60 million in deferred tax assets associated with other items of the profit and loss account; of this amount, €57 million is exclusively due to the reclassification of the deferred tax assets on the civil law depreciation not yet tax deducted (see Note 1 to Tables 22 and 27) and on the write-downs of buildings held for sale. This reclassification resulted in lower deferred tax liabilities.

Most of the deferred tax assets included in the balance sheet derive from the carry-forward of the residual tax losses from the bond conversion under Law 289/2002. The rules governing the carry-forward of losses from bond conversion under Law 289/2002 are set out in Article 65 of that law as amended by Law 248/2005. They state that the losses may be utilized with no time restriction to offset up to 50 per cent of corporate taxable income (IRES) each year. The reasonable expectation of their recovery takes account of the Bank's expected profit and the applicable tax rules. The movements in deferred tax assets during the year are shown in Table 45 of 'Notes on the items of the profit and loss account'.

Sundry (Sub-item 11.7 on the asset side) includes the balance sheet total (€542 million) of the defined-contribution supplementary pension fund for staff hired on or after 28 April 1993, which is matched on the liability side by an equal amount recorded in Sub-item 11.3 of *Other liabilities*. The fund constitutes a separate asset for administrative and accounting purposes pursuant to Article 2117 of the Civil Code. The Bank manages its investments observing benchmarks.

[7] Banknotes in circulation

This item, which represents the Bank of Italy's share of banknotes in circulation issued by the Eurosystem (see 'Legal basis, accounting policies and layout of the annual accounts'),¹⁰ increased by €9,721 million (from €188,368 to €198,089 million). To a lesser extent, the value of banknotes actually put into circulation by the Bank was also up (from €149,684 to €153,239 million).

Since the amount of banknotes issued by the Bank was lower than the notional amount assigned to it, the difference of €44,850 million is shown as a claim on the Eurosystem in Item 9.3 on the asset side, as *Net claims relating to the allocation of euro banknotes within the Eurosystem*.

[8] Liabilities to general government and other counterparties

Table 23

Liabilities to other euro-area residents (Item 4) (millions of euros)			
	31.12.2018	31.12.2017	Change
4.1 General government	31.691	6.589	25.102
4.1.1 Treasury payment account	31.633	6.550	25.083
4.1.2 Other liabilities	58	39	19
4.2 Other counterparties	10.579	6.204	4.375
Total	42.270	12.793	29.477

Item 4 on the liability side, which amounted to €42,270 million at the end of 2018 compared with €12,793 million in 2017, refers mainly to the deposits held by the Treasury with the Bank of Italy (€31,633 million) and euro-denominated deposits of counterparties other than credit institutions (€10,579 million). The year-end balance of the Treasury deposits with the Bank of Italy increased significantly with respect to 2017, as did the annual average balance (from €17,963 million to €27,106 million).

Other liabilities amounted to €58 million (compared with €39 million in 2017) and consisted almost exclusively of debt positions with general government in respect of advances received for the management of cross-border euro payments and collections.

¹⁰ The Bank's share fell from 16.1 per cent to 15.6 per cent on 1 January 2019 after the five-year adjustment to the ECB's subscribed capital.

Liabilities to other counterparties (Sub-item 4.2) amounted to €10,579 million (€6,204 million in 2017). Other deposits making up the item, mainly consisting of those of clearing houses, also include the holdings of the National Resolution Fund set up by the Bank of Italy as national resolution authority.

GOVERNMENT DEPOSITS

Government deposits held with the Eurosystem are regulated by Decision ECB/2014/8 and Guideline ECB/2014/9 of 20 February 2014, as amended by Guideline ECB/2014/22 and Decision ECB/2014/23 of 5 June 2014. Accordingly, (a) as of 1 December 2014, overnight and fixed-term government deposits are remunerated with an interest rate no higher than the Eonia and the Eurepo respectively and (b) as of June 2014, the total amount of government deposits that can be remunerated is the higher of either the sum of €200 million or 0.04 per cent of GDP, and any amount in excess is remunerated with an interest rate of zero per cent or with the interest rate on the deposit facility, if negative.

[9] Liabilities to non-euro-area residents denominated in euros

Sub-item 5.2 (*Other liabilities*), amounted to €3,355 million (€3,301 million in 2017) and included accounts held by customers using the Eurosystem Reserves Management Services (ERMS)¹¹ in the amount of €1,615 million and other deposits by non-residents totalling €1,740 million, including the Single Resolution Board (SRB).¹²

[10] Other liabilities

The composition of this item is detailed in Table 24. *Accruals and income collected in advance* (Sub-item 11.2) is detailed in Table 25.

Table 24

Other liabilities (Item 11) (millions of euros)			
	31.12.2018	31.12.2017	Change
11.1 Cashier's cheques	115	104	11
11.2 Accruals and income collected in advance	1,894	1,227	667
11.3 Sundry	1,545	1,531	14
Supplementary pension fund	542	520	22
Special item for stabilizing dividends	80	40	40
Other components	923	971	-48
Total	3,554	2,862	692

¹¹ Eurosystem NCBs can offer ERMS to central banks and government bodies of non-euro countries and to international organizations within a framework of harmonized terms and conditions.

¹² Contributions paid by Italian credit institutions and collected by the Bank, in its role as national resolution authority and on behalf of the Single Resolution Board, are allocated to the SRB's deposits.

The interest accrued on refinancing operations refers to TLTRO2 operations (see 'Notes on the items of profit and loss account' – *Net interest income*).

Table 25

Accruals and income collected in advance (Sub-item 11.2)			
<i>(millions of euros)</i>			
	31.12.2018	31.12.2017	Change
Accrued expenses	1,894	1,227	667
Interest accrued on refinancing operations	1,876	1,214	662
Interest accrued on liabilities denominated in foreign currency	18	13	5
Income collected in advance	–	–	–
Total	1,894	1,227	667

Other liabilities includes the special item for stabilizing dividends, which amounted to €80 million. The establishment of the special item was decided by the Meeting of Shareholders on 31 March 2017 in order to smooth the implementation of the dividend policy.¹³

[11] Provision for general risks and other provisions

The balances and movements of provisions are shown in Tables 26 and 28.

Table 26

Movements in provisions for specific risks (Sub-item 12.1)				
<i>(millions of euros)</i>				
	Damage insurance provision	Tax provision (1)	Provision for Eurosystem monetary policy operations	Total
Opening balance	310	17	12	339
Increases	–	132	28	160
Allocations	–	–	28	28
Other increases	–	132	–	132
Decreases	–	-15	-12	-27
Withdrawals	–	–	-12	-12
Other decreases	–	-15	–	-15
Closing balance	310	134	28	472

(1) The tax provision includes liabilities for deferred IRES and IRAP taxes. *Other increases* and *Other decreases* include the change in deferred tax liabilities.

The increase in the tax provision is mainly on account of the recognition of deferred tax liabilities for IRES and IRAP on the overall net gaps between the civil law value and the tax value of the Bank's buildings. In fact, starting in 2018, deferred tax liabilities are recorded for all the Bank's buildings, not only for those held for sale.

¹³ In 2015 the Board of Directors indicated that, in subsequent years, they plan to keep the annual dividend between €340 million and €380 million, provided that the net profit is sufficient and without prejudice to the Bank's capital adequacy.

Movements in the tax provision, which only covers deferred tax liabilities for IRES and IRAP, are detailed in Table 46.

Table 27

Deferred tax liabilities (millions of euros)								
	31.12.2018				31.12.2017			
	Temporary differences	IRES	IRAP	Total	Temporary differences	IRES	IRAP	Total
Realized gains on securities, property and other assets	6	2	–	2	5	1	–	1
Depreciation on differences generated by separating land and buildings (1)	–	–	–	–	35	10	2	12
Gaps between the civil law values and the tax values of buildings (2)	392	108	21	129	–	–	–	–
Other	12	3	–	3	13	4	–	4
Total	410	113	21	134	53	15	2	17

(1) Depreciation on the increased tax values generated by separating land from buildings for sale and/or no longer in use or usable for the Bank's activities. Starting in 2018, this type of deferred tax liability is included in total deferred taxes in *Gaps between the civil law values and the tax values of buildings*. – (2) Reflects the deferred taxes on the net temporary differences with regard to all the Bank's buildings (see also Table 22).

The provision for risks relating to monetary policy operations, created in 2017 to cover an impairment loss recorded at Eurosystem level on a security purchased under the CSPP, was wholly used to cover the loss incurred following the sale of the impaired security in early January 2018.¹⁴ Another allocation was made on 31 December 2018 to this provision to cover the impairment loss at Eurosystem level on a different security in the CSPP programme (see 'Monetary policy operations'). Based on Eurosystem estimates, the total size of the provision is equal to €161 million. According to Article 32.4 of the Statute of the ESCB, each euro-area NCB is required to enter in its balance sheet a provision in proportion to its share in the ECB's capital in 2018. The amount assigned to the Bank of Italy was equal to €28 million.

Table 28

Movements in staff-related provisions (Sub-item 12.2) (millions of euros)					
	For staff severance pay and pensions	Fund for staff costs	For severance pay (1)	For grants to BI pensioners and their survivors	Total
Opening balance	6,726	332	2	3	7,063
Increases	25	107	–	–	132
Allocations	25	107	–	–	132
Decreases	–	-121	–	–	-121
Withdrawals	–	-121	–	–	-121
Closing balance	6,751	318	2	3	7,074

(1) Includes severance pay accrued by contract staff and ordinary staff prior to joining the supplementary pension fund.

¹⁴ Based on Article 32.4 of the Statute of the ESCB, the provision, which at Eurosystem level amounted to €69 million, was funded by each euro-area national central bank in proportion to its respective contribution to the capital of the ECB in 2017. The amount assigned to the Bank of Italy was equal to €12 million. The size of the provision was calculated by taking account of the information regarding the sale of the security.

Staff-related provisions (Sub-item 12.2) amounted to €7,074 million. In 2018:

- the provision for staff severance pay and pensions rose by €25 million, totalling €6,751 million at the end of 2018. The allocations made during the year aligned the mathematical reserves to the recent amendments to social security legislation and to changes in the economic and financial parameters; the temporary surplus of €12 million from 2017, which was prudentially left in the provision, was reabsorbed;
- the provision for staff costs decreased by €14 million, largely on account of employees' adherence to the early retirement measures approved in previous years. The provision was increased by €16.5 million in relation to the estimated costs of these measures deriving from recent changes to social security legislation. This provision includes transfers equal to €18 million for lump-sum disbursements to staff hired on or after 28 April 1993 who joined the defined-contribution supplementary pension fund to be settled upon their leaving service.

In 2018 the Bank continued to gradually strengthen its financial buffers against its overall risk exposure and the increased size of its balance sheet. Specifically, the provision for general risks was increased by €1,500 million (€2,920 million in 2017) to address the risks involved in implementing the public and private sector asset purchase programmes even in the most adverse scenarios.

Table 29

Movements in the provision for general risks (Item 14) <i>(millions of euros)</i>		
	31.12.2018	31.12.2017
Opening balance	25,214	22,294
Increases	1,500	2,920
Allocations	1,500	2,920
Decreases	–	–
Withdrawals	–	–
Closing balance	26,714	25,214

[12] Revaluation accounts

The item includes unrealized gains from the valuation at market prices of gold, foreign currency, securities and forward operations (see *Gold, assets and liabilities denominated in foreign currency* and *Securities portfolio*).

Table 30

Revaluation accounts (Item 13) (millions of euros)			
	Opening balance	Net revaluations	Closing balance
Exchange rate revaluations	68,887	4,514	73,401
<i>of which:</i> gold	65,862	3,081	68,943
net foreign currency assets (1)	3,006	1,394	4,400
financial assets relating to the investment of reserves and provisions (1)	19	39	58
Price revaluations	4,077	-921	3,156
<i>of which:</i> foreign currency securities	82	65	147
securities denominated in euros	440	-127	313
financial assets relating to the investment of reserves and provisions	3,555	- 859	2,696
Total	72,964	3,593	76,557

(1) Includes net revaluations relating to operations to hedge exchange rate risks on the Bank's SDR position and foreign currency investments relating to the investment of reserves and provisions.

[13] Capital and reserves

The composition of this item is detailed in Table 31.

Table 31

Capital and reserves (Item 15) (millions of euros)			
	31.12.2018	31.12.2017	Change
15.1 Capital	7,500	7,500	-
15.2 Statutory reserves	10,645	10,373	272
Ordinary	6,050	5,778	272
Extraordinary	4,595	4,595	-
15.3 Other reserves	7,740	7,740	-
Monetary revaluation reserves (1)	3,813	3,813	-
Special fund for the renewal of tangible fixed assets	1,805	1,805	-
Surplus from the merger of UIC (Legislative Decree 231/2007)	2,122	2,122	-
Total	25,885	25,613	272

(1) Under Laws 72/1983, 408/1990, 413/1991, 342/2000, and 266/2005.

Article 4 of Law 5/2014 (which reformed the Bank of Italy's ownership structure) and the ensuing changes to the Statute provide that shareholders' ownership rights be limited exclusively to the value of the capital and dividends; the latter cannot exceed 6 per cent of capital in a given year. Therefore, the equity reserves, regardless of their origin, may only be used to cover possible losses. The movements in the ordinary and extraordinary reserves are detailed in Table 32.

Table 32

Movements in ordinary and extraordinary reserves (Sub-item 15.2) (millions of euros)			
	Balance at 31.12.2017	Allocation of 2017 profit	Balance at 31.12.2018
Ordinary	5,778	272	6,050
Extraordinary	4,595	–	4,595
Total	10,373	272	10,645

The distribution of the shareholdings in the Bank of Italy's capital at 31 December 2018 is detailed in Table 33.

The transactions carried out in 2018 in relation to Bank of Italy shareholdings led to the transfer of about 6 per cent of capital. At 31 December 2018, there were 119 shareholders (121 at the end of 2017), of whom 8 were new (5 banking foundations, 1 insurance company and 2 banks). The 10 entities no longer shareholders consisted of 8 banks, 1 pension fund and 1 insurance company.

At the end of 2018, four shareholders still held, at individual and consolidated level, shares exceeding the 3 per cent threshold set by law. As a result of these developments, at year-end 62.64 per cent of the shareholdings were held by banks, 7.5 per cent by insurance companies, 20.99 per cent by social security institutions, 3.29 per cent by pension funds, and 5.58 per cent by banking foundations.

Table 33

Shareholders in the Bank of Italy				
	At the end of 2018		At the end of 2017	
	Number	Shares	Number	Shares
Banks	70	187,920	76	195,360
Social security institutions	11	62,960	11	58,760
Pension funds	7	9,880	8	9,880
Insurance companies	10	22,514	10	23,234
Banking foundations	21	16,726	16	12,766
Total	119	300,000	121	300,000

Commitments, collateral granted and other off-balance-sheet accounts

Commitments and collateral granted by the Bank are reported in Table 34, which also shows the total third-party securities and valuables on deposit with the Bank and the balance sheet total of the National Resolution Fund set up within the Bank of Italy pursuant to Article 78 of Legislative Decree 180/2015.

Table 34

Commitments and collateral granted (millions of euros)			
	31.12.2018	31.12.2017	Change
Orders in progress	298	185	113
Purchases	191	181	10
Sales	107	4	103
Forward operations	3,715	2,678	1,037
Forward sales of foreign currencies	2,643	1,879	764
Forward purchases of foreign currencies	715	75	640
Futures contracts purchased	330	711	-381
Futures contracts sold	27	13	14
Commitments	34,602	34,161	441
To the IMF for loans granted	34,601	34,160	441
Other	1	1	-
Collateral granted	13	12	1
Third-party securities and valuables on deposit with the Bank	73,983	94,536	-20,553
Total balance sheet of the National Resolution Fund	430	463	-33
Commitments of the supplementary pension fund	88	99	-11
Total	113,129	132,134	-19,005

Forward sales of foreign currency include exchange-rate risk-hedging operations on the Bank's SDR position and on the foreign currency investments relating to reserves and provisions (see *Securities portfolio*). Commitments to the IMF for granting loans relate to measures by the IMF for financing to be disbursed on behalf of the Italian government.

The Bank participates in the automatic securities lending programmes managed by specialized intermediaries, involving foreign currency securities and all portfolios of securities held for monetary policy purposes. The market value of securities lent by the Bank under these programmes amounted to €1,257 million for foreign currency securities, €264 million for covered bonds, and €8,544 million for PSPP, CSPP and SMP securities.

THE NATIONAL RESOLUTION FUND

Legislative Decree 180/2015 transposing Directive 2014/59/EU (Bank Recovery and Resolution Directive) provides that one or more Italian resolution funds be set up to finance the resolution of credit institutions and investment firms in financial difficulty. These funds are financed mainly by ordinary and extraordinary contributions from credit institutions and investment firms and provide the national resolution authority with the necessary financial resources to carry out resolutions. The Bank of Italy has been designated as national resolution authority. The Bank has accordingly established a Resolution and Crisis Management Unit that reports directly to the Governing Board. Its function is to draft and implement resolutions. On 18 November 2015 the Bank issued a measure creating the National Resolution

Fund (NRF). The NRF has its own capital that is in all respects independent and separate from that of the Bank and from any other capital the Bank manages, as well as from the capital of each of the contributors to its resources. To ensure the necessary transparency vis-à-vis the public, an annual report is issued on the NRF's activities, audited by the same auditing company that audits the Bank's annual accounts and published at the same time. The operating and administrative costs of the Unit figure among those of the Bank, as do the indirect costs for resolution activity. The NRF has separate fiscal personality for IRES and IRAP taxation purposes.

Notes on the items of the profit and loss account

[14] Net interest income

Net interest income (Item 1) represents the balance of interest income and interest expense accrued in the year, excluding interest on financial assets relating to the investment of reserves and provisions, which is given under Item 6. In 2018, this item rose by €1,386 million, from €6,944 million to €8,330 million. The increase was due mainly to the higher interest on securities purchased under the PSPP and, to a lesser extent, to the lower negative interest on TLTRO2 operations recognized under interest expense.

Total interest income amounted to €9,079 million (Table 35), up by €1,175 million on 2017.

Table 35

Interest income (Sub-item 1.1) <i>(millions of euros)</i>			
	2018	2017	Change
Securities denominated in euros	7,982	7,113	869
<i>of which:</i> CBPP1, CBPP2, CBPP3	354	323	31
SMP	734	856	-122
PSPP	3,870	2,845	1,025
CSPP	195	100	95
Government bond conversion under Law 289/2002	711	710	1
Other bonds	2,118	2,279	-161
Current accounts (covering the minimum reserve system)	293	267	26
Treasury payments account	40	6	34
Other in euros	125	114	11
Securities denominated in foreign currency	435	310	125
Claims on the IMF	90	50	40
Other in foreign currency	114	44	70
Total	9,079	7,904	1,175

Total interest income on securities denominated in euros amounted to €7,982 million. The increase of €869 million on 2017, despite substantially stable average yields, was due to a further rise in the volume of securities held for monetary policy purposes, specifically those relating to purchases under the PSPP.

The ECB Governing Council kept the interest rate on refinancing operations at 0.0 per cent throughout 2018. As an effect, interest income remained nil on the main refinancing operations and on the intra-ESCB balances under *Net claims relating to the allocation of euro banknotes within the Eurosystem* and under *Claims arising from the transfer of foreign reserves to the ECB* (see 'Notes on the items of the balance sheet' - *Intra-Eurosystem claims and liabilities*).¹⁵

The interest on longer-term refinancing operations continued to display a negative net balance in 2018, though lower than the level recorded in 2017, and is classified as an interest expense.

There was a positive balance of €293 million for interest on current accounts covering the minimum reserve requirement (€267 million in 2017). This was entirely due to interest on reserves held in excess of the minimum reserve requirement, as interest on the minimum requirement was nil.¹⁶

The net interest on the Treasury payments account continued to be positive in 2018, amounting to €40 million (€6 million in 2017). Of this, the interest accrued from applying negative deposit facility rates to balances exceeding the part eligible for remuneration was positive by €108 million (€72 million in 2017; see 'Notes on the items of the balance sheet' - *Liabilities to general government and other counterparties* and the box 'Government deposits') while supplementary interest due to the Treasury constituted an interest expense of €68 million (€66 million in 2017).¹⁷ The increase in interest on the balances of the Treasury payment account exceeding the part eligible for remuneration was due to the higher average value of the account.

Other interest denominated in euros, amounting to €125 million in 2018 (€114 million in 2017), was mainly in the form of interest income on the overnight deposits and on the other deposits of non-bank intermediaries, owing to negative interest rates.

There was an overall increase in interest income on assets denominated in foreign currency compared with 2017, mainly owing to the higher remuneration rates recorded during the year.

Interest expense amounted to €749 million (Table 36), representing an overall decrease of €211 million with respect to 2017.

¹⁵ Balances from the allocation of euro banknotes within the Eurosystem are remunerated at the marginal rate of interest on MROs. The remuneration on claims arising from the transfer of reserves to the ECB is also based on the marginal interest rate on MROs, less 15 per cent to take account of the part of reserves consisting of gold, which does not generate interest.

¹⁶ The accounts for the minimum reserve requirement are remunerated at the average of the marginal interest rates on Eurosystem MROs during the reserve maintenance period. Reserves in excess of the requirement are remunerated at the interest rate on the deposit facility, which was negative (-0.40 per cent) throughout 2018.

¹⁷ Supplementary interest is paid to the Treasury under Presidential Decree 398/2003 (Consolidated law containing provisions and rules on the public debt). It is computed on the basis of the daily interest-bearing balance of the Treasury payments account at a rate equal to the difference, if positive, between the interest rate on the securities originally purchased by the Bank to set up the related holdings (and not yet matured) and the reference rate used to compute the interest on the account.

Table 36

Interest expense (Sub-item 1.2) (millions of euros)			
	2018	2017	Change
Longer-term refinancing operations	661	908	-247
Counterpart of SDRs allocated by the IMF	74	42	32
Other in foreign currency	14	10	4
Total	749	960	-211

Interest on longer-term refinancing operations registered a negative net balance of €661 million (€908 million in 2017), solely in connection with TLTRO2 operations. In 2017 interest expense on TLTRO2 operations amounted to €910 million and interest income on other longer-term refinancing operations amounted to €2 million.

The significant decrease in interest expense on TLTRO2 operations was due to the final interest rate applied to these operations. This rate, which became known only in 2018, was more favourable on average than the deposit facility rate (-0.40 per cent) prudently used in calculating interest in 2016 and 2017. The lower interest expense reported in the profit and loss account for 2018 also reflects the correction to the interest accrued in these years.

TLTRO2 REMUNERATION

TLTRO2 auctions were carried out on a quarterly basis from June 2016 to March 2017. The remuneration of these operations varied between the main refinancing rate and the deposit facility rate prevailing at the time of allotment and was determined based on the increase observed in loans to households and firms by participating banks. The observation period ended in 2018. As a result, only then was it possible to calculate the actual rate for each counterparty.

Given that in 2016 and 2017 the actual rate to be applied to counterparties was not known and could not be reliably estimated, it was agreed at Eurosystem level to use the most unfavourable interest rate for NCBs (-0.40 per cent on overnight deposits) to calculate the interest to be recognized in the profit and loss account. This amount would then be corrected in the year in which the final rate is set.

Interest expense on negative balances in TARGET2 was again nil in 2018 owing to the remuneration rate of zero per cent.¹⁸

¹⁸ The TARGET2 balance is remunerated at the marginal rate of interest on MROs.

As a result of the rise in interest rates, there was an increase in the interest on SDR allocations by the IMF and in other interest expenses on liabilities denominated in foreign currencies.

[15] Net result of financial operations, write-downs and transfers to/from risk provisions

Table 37

Net result of financial operations, write-downs and transfers to/from risk provisions (Item 2) <i>(millions of euros)</i>			
	2018	2017	Change
Profits (+) and losses (-) on financial operations	4	266	-262
Foreign exchange trading	48	217	-169
Trading in securities denominated in euros	23	9	14
Trading in securities denominated in foreign currency	-75	37	-112
Derivatives contracts	-5	-9	4
Other transactions	13	12	1
Write-downs (-) of financial assets and positions	-185	-169	-16
Due to exchange rate changes	-131	-46	-85
Due to price changes			
– securities denominated in euros	-10	-16	6
– securities denominated in foreign currency	-44	-107	63
Transfers to (-) the provision for general risks for exchange rate, price and credit risks	-1,500	-2,920	1,420
Total	-1,681	-2,823	1,142

The result for 2018 (Table 37) includes: (a) net profit from foreign exchange trading for €47 million, referring mainly to trading in US dollars; (b) net profit from trading in securities denominated in euros for €23 million, and net losses from trading in securities mostly denominated in US dollars for €75 million; and (c) write-downs for €185 million, mainly due to the exchange rate losses on securities denominated in Australian dollars and Canadian dollars (see also Table 6). The market price write-downs on securities denominated in foreign currency referred almost entirely to US dollar-denominated securities. Transfers to the provision for general risks amounted to €1,500 million.

[16] Net income from fees and commissions

Net income from fees and commissions (Item 3) increased compared with 2017, amounting to €23 million, on account of the higher fees due from participants in TARGET2 and T2S-Securities systems (up by €5 million).

Table 38

Net income from fees and commissions (Item 3)			
<i>(millions of euros)</i>			
	2018	2017	Change
Fee and commission income	39	34	5
TARGET2/T2S	20	15	5
Financial services to the public sector	4	4	–
Management of securities backing monetary policy operations	5	5	–
Clearing system	2	3	-1
Substitute protest declarations	2	2	–
Other	6	5	1
Fee and commission expense	16	16	–
Centralized securities management	12	12	–
Other	4	4	–
Total	23	18	5

[17] Income from participating interests

Income from participating interests (Item 4) amounted to €259 million, up by €46 million on the previous year. The result for 2018 included:

- €50 million, representing the Bank's share of the ECB's profit earned in 2017 and distributed in 2018 (€40 million in the previous year);
- €209 million representing the ECB's interim profit distribution for 2018 (€173 million in the previous year); the remaining profit, equal to €67 million, was received in February 2019.

[18] Net result of the pooling of monetary income

The result for 2018 (Item 5), was positive by €1,234 million, and included:

- the net result of the allocation of monetary income in 2018, equal to €1,370 million (€1,246 million in 2017). This was the difference between the monetary income pooled by the Bank, amounting to €765 million, and that redistributed to the Bank, totalling €2,135 million;
- the negative effect of €120 million, pertaining to the recalculation of amounts for previous years. This amount was mainly on account of the recalculation of monetary income for 2016 and 2017 to take account of the actual rate on TLTRO2 operations, which became known only in 2018 (see *Net interest income*);
- the provision, equal to €28 million and set aside out of the share pertaining to the Bank of Italy, against losses on Eurosystem monetary policy operations (see 'Notes on the items of the balance sheet' - *Monetary policy operations* and *Provision for general risks and other provisions*);

- the release of €12 million from the provision set aside in 2017 to cover the losses on Eurosystem monetary policy operations (see ‘Notes on the items of the balance sheet’ - *Provision for general risks and other provisions*).

MONETARY INCOME

The monetary income to be pooled by each NCB is equal to its annual income derived from the earmarkable assets held against its liability base. An NCB’s liability base consists primarily of (a) banknotes in circulation, (b) liabilities to euro-area credit institutions relating to monetary policy operations denominated in euros, (c) net intra-Eurosystem liabilities resulting from TARGET2 transactions, and (d) net intra-Eurosystem liabilities relating to the allocation of euro banknotes within the Eurosystem. The interest on the liabilities included in the liability base is deducted from the monetary income to be pooled. An NCB’s earmarkable assets comprise mainly (a) lending to euro-area credit institutions relating to monetary policy operations; (b) securities held for monetary policy purposes; (c) intra-Eurosystem claims arising from the transfer of reserves to the ECB; (d) net intra-Eurosystem claims resulting from TARGET2 transactions; (e) net intra-Eurosystem claims relating to the allocation of euro banknotes within the Eurosystem; and (f) a limited amount of gold holdings and gold receivables in proportion to each NCB’s subscribed capital key. Gold is not considered to generate interest. Securities purchased under the first two covered bond purchase programmes (Decision ECB/2009/16 and Decision ECB/2011/17 of the Governing Council) and public sector securities purchased under the PSPP (Decision ECB/2015/10) are considered to bear interest at the marginal rate used by the Eurosystem for MROs. Where the value of an NCB’s earmarkable assets exceeds or falls short of the value of its liability base, the difference (gap) is considered to bear interest based on the marginal rate used by the Eurosystem for MROs.

The total monetary income pooled by the NCBs in the Eurosystem is redistributed to each NCB according to its capital key. The difference between the monetary income pooled by each NCB and the amount, which may be larger or smaller, redistributed to it depends on two elements. The first relates to possible differences between NCBs regarding the interest income received on specific earmarkable assets and the interest expense due on some components of the liability base. The second element arises from the fact that the amounts of the above assets and liabilities in the NCBs’ balance sheets do not generally coincide with their share in the capital of the ECB.

[19] Net income from financial assets relating to the investment of reserves and provisions

Item 6 of the profit and loss account amounts to €1,025 million, down €742 million on 2017 (Table 39).

Table 39

Net income from financial assets relating to the investment of reserves and provisions (Item 6) (millions of euros)			
	2018	2017	Change
Interest	1,031	1,028	3
Dividends from equity shares and participating interests	249	207	42
Profits/losses from trading	83	708	-625
Write-downs	-363	-207	-156
Other components	25	31	-6
Total	1,025	1,767	-742

The decrease was due to both lower net profit from trading during the year and the increase in write-downs. In 2017, net profit from trading mainly arose from the sale of shares of CIUs. Write-downs were wholly due to the valuation at year-end market prices and related almost exclusively to the equity instruments portfolio. The interest component was substantially unchanged compared with 2017. The average holding of the bond portfolio and the related yields remained substantially unchanged.

[20] Other income

Table 40

Other income (Item 8) (millions of euros)			
	2018	2017	Change
Rental income	5	5	–
Other	115	65	50
Total	120	70	50

Other income (Item 8) amounted to €120 million (€70 million in 2017).

The item includes reimbursement from other Eurosystem NCBs for the development of platforms, applications and IT infrastructure by the Bank in cooperation with the other central bank providers. The reimbursements amounted to €98 million in 2018 (€47 million in 2017) and were for the most part connected to the TARGET2 and T2S-Securities systems.

[21] Expenses and sundry charges

Expenses and sundry charges (Item 9) amounted to €1,915 million, against €1,965 million in 2017.

Table 41

Expenses and sundry charges (Item 9) (millions of euros)			
	2018	2017	Change
Staff wages and salaries	648	652	-4
Social security and insurance	165	166	-1
Other staff costs	42	40	2
Pensions and severance payments	325	341	-16
Transfers to/from provisions for staff severance pay and pensions, contributions to the supplementary pension fund and other expenses	111	146	-35
Emoluments paid to head office and branch collegial bodies	3	3	-
Administrative expenses	453	443	10
Depreciation of tangible and intangible fixed assets	123	131	-8
Banknote production services (1)	-	-	-
Other expenses	45	43	2
Total	1,915	1,965	-50

(1) Costs for external banknote production services and for purchases of banknotes.

The reduction in operating expenses was mainly due to the lower severance payments made during the year and the decrease in provisions for costs associated with early retirement included in the sub-item *Transfers to/from provisions for staff severance pay and pensions, contributions to supplementary pension fund and other expenses*. This sub-item (-€35 million) also includes allocations for staff severance pay and pensions, which amounted to €25 million (€0 in 2017), and the provision for costs associated with early retirement measures, which amounted to €16.5 million (€77 million in 2017; see 'Notes on the items of the balance sheet' - *Provisions for general risks and other provisions*.) Depreciation also declined, falling by €8 million.

Gross employee compensation (including contract workers), comprising wages and salaries, overtime and accrued expenses not yet paid, fell from €652 million to €648 million. The average number of full time equivalent (FTE)¹⁹ employees amounted to 6,955 (7,101 in 2017). The average gross wage per FTE employee, based on balance sheet data, was €93,200 (compared with €91,800 in 2017).

Table 42

The Bank's staff				
Composition of the Bank's staff	Average number of employees in service		Percentage composition	
	2018	2017	2018	2017
Managerial and High-Level Professional Area	3,214	3,142	48.1	46.2
Operational Area	3,469	3,653	51.9	53.8
Total	6,683	6,795	100.0	100.0
Contract workers	36	38		

¹⁹ The number of full-time equivalent employees is calculated by taking into account overtime, part-time and unpaid absences.

Total staff costs, i.e. gross wages and salaries plus related costs (pension and social security contributions) and other staff expenses (including per diem expenses for missions and transfers), amounted to €855 million in 2018, against €858 million in 2017.

Emoluments paid to head and branch office collegial bodies comprise the emoluments paid to the Board of Directors (€412,230), the Board of Auditors (€137,430) and the Governing Board. Since 2014, the emoluments for members of the Governing Board have been set at €450,000 for the Governor, €400,000 for the Senior Deputy Governor and €315,000 for each of the three Deputy Governors. The members of the Governing Board also sit in the Joint Directorate of the Institute for the Supervision of Insurance (IVASS), which sets its guidelines and strategic targets and adopts insurance supervision measures. No additional emoluments arise from this activity.

Administrative expenses amounted to €453 million (€443 million in 2017). This amount includes the higher costs for ICT services caused by the increase in the cost incurred as a user of the services related to Eurosystem IT infrastructure; it also includes the higher costs for the rental and maintenance of external software. In contrast, there was a decline in the costs for the purchase of raw materials for banknote production.

Table 43

Administrative expenses (millions of euros)			
	2018	2017	Change
Services	387	362	25
ICT (1)	126	107	19
Security services, banknote escort and guards	64	64	-
Building and equipment maintenance	70	69	1
Utilities	23	21	2
Equipment rental	13	13	-
Canteen and cleaning services	23	22	1
Other	68	66	2
Materials and consumables	66	81	- 15
Banknote production	50	65	- 15
Subscriptions to publications and information providers	13	12	1
Office supplies	2	2	-
Other	1	2	- 1
Total	453	443	10

(1) Includes the costs of using the Eurosystem's IT infrastructures, which amount to €37 million in 2018 (€24 million in 2017). The expenses relating to the rental and maintenance of hardware are included in *Building and equipment maintenance* and in *Equipment rental*.

Other expenses, amounting to €45 million, included €32 million for local and indirect taxes, of which €26 million for IMU (municipal property tax) and TASI

(municipal services tax). The increase in this item was due to property write-downs amounting to €7 million.

[22] Taxes on income for the year and on productive activities

Taxes for the year (Item 11) amounted to €1,155 million and comprise the current taxes due, taxes for prior years and the change in deferred tax assets and liabilities (see 'Notes on the items of the balance sheet' - *Other assets* and *Provision for general risks and other provisions*).

IRES amounted to €678 million in 2018 (€1,201 million in 2017), of which €340 million for current taxes and €338 million for the net change in deferred tax assets and liabilities. The latter was due mostly to the reduction in deferred tax assets from offsetting past tax losses.

The total charge for IRAP was €466 million (€353 million in 2017). Current taxes amounted to €436 million and the net change in deferred tax assets and liabilities was €30 million.

Table 44

Composition of taxes on income for the year (Item 12)						
(millions of euros)						
	2018			2017		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes (-)	-340	-436	-776	-563	-355	-918
Taxes for prior years (+/-)	-11	-	-11	-9	-	-9
Change in deferred tax assets (+/-)	-240	-11	-251	-638	2	-636
Change in deferred tax liabilities (+/-)	-98	-19	-117	-	-	-
Taxes for the year (-)	-689	-466	-1,155	-1,210	-353	-1,563

Table 45

Movements in deferred tax assets			
(millions of euros)			
	IRES	IRAP	Total
Initial amount	1,455	26	1,481
Increases	281	7	288
Deferred tax assets recognized during the year	281	7	288
Decreases	-521	-18	-539
Deferred tax assets cancelled during the year	-521	-18	-539
of which: relating to tax losses carried forward	-432	-	-432
Final amount	1,215	15	1,230

Table 46

Movements in deferred tax liabilities (millions of euros)			
	IRES	IRAP	Total
Initial amount	15	2	17
Increases	110	22	132
Deferred tax liabilities recognized during the year	110	22	132
Decreases	-12	-3	-15
Deferred tax liabilities cancelled during the year	-12	-3	-15
Final amount	113	21	134

Post-balance-sheet events

As of 1 January 2019, following the five-year adjustment, the Bank of Italy's share in the ECB's capital, considering only the NCBs participating in the Eurosystem, decreased from 17.4890 to 16.9530 per cent. This percentage is used to regulate the financial relationship between the Bank and the other Eurosystem NCBs, such as the allocation of the ECB's net profit.

PROPOSALS OF THE BOARD OF DIRECTORS

The Board of Directors, having considered that:

- the Ordinary Meeting of Shareholders of 31 March 2017, following a proposal by the Board of Directors and having received the approval of the Board of Auditors, decided to create a special item in the balance sheet to be used to stabilize over the long term the amount of net profit paid to the shareholders under the dividend policy in force;
- the item may be credited annually with an amount equal to the difference between the upper bound of the range indicated in the dividend policy in force at the time and the dividend actually distributed;
- in accordance with Article 3.4 of the Statute, no dividend is due on shareholdings exceeding the 3 per cent threshold and the sum shall instead be allocated to the Bank's statutory reserves;

acting on the proposal of the Governing Board and after hearing the opinion of the Board of Auditors, proposes the following allocation of the net profit for 2018 for approval by the Meeting of Shareholders:

– to the ordinary reserve.....	150,000,000
– as a dividend to the shareholders.....	340,000,000
<i>of which:</i> to the ordinary reserve (pursuant to Art. 3.4 of the Statute).....	113,025,067
– to the special item for stabilizing dividends.....	40,000,000
– to the State, the remaining amount of.....	<u>5,709,527,895</u>
	Total <u>6,239,527,895</u>

There were 99,728 shares that exceeded the threshold on the date indicated in Article 38.2.b of the Statute; the corresponding dividend – equal to €113,025,067 – has been allocated to the ordinary reserve.

THE GOVERNOR
Ignazio Visco

**DOCUMENTS ATTACHED
TO THE ANNUAL ACCOUNTS**

REPORT OF THE BOARD OF AUDITORS

ON THE 125TH FINANCIAL YEAR OF THE BANK OF ITALY AND THE ACCOUNTS FOR THE YEAR ENDING 31 DECEMBER 2018

To the shareholders,

We have examined the Annual Accounts of the Bank of Italy for the year ending 31 December 2018, drawn up in accordance with the accounting standards and valuation methods decided by the Board of Directors and agreed by us, which are described in detail in the Notes to the Accounts.

We have conducted our examination of the Annual Accounts in accordance with the rules and principles of conduct for the Board of Auditors issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili. We have also taken the same principles into account in performing the checks required by Article 20 of the Bank of Italy's Statute.

In our opinion the Annual Accounts of the Bank of Italy for the year ending 31 December 2018 have been prepared in accordance with the accounting standards and valuation methods indicated in the Notes to the Accounts. They comply with the laws in force and with the harmonized accounting rules laid down by the Governing Council of the ECB and transposed by Article 8 of Legislative Decree 43/1998.

We call particular attention to the following matters, which are treated at length in the Notes to the Accounts and the Management Report:

- a) The recognition in the balance sheet of deferred tax assets, deriving mainly from the carry-forward of the residual tax loss from the bond conversion under Law 289/2002, is based on the reasonable expectation of offsetting their full amount, considering the outlook for the Bank's income. Regarding the result for the year, deferred tax assets diminished by €251 million (from €1,481 million to €1,230 million).
- b) The Board of Directors approved the transfer of €1,500 million to the provision for general risks expressly provided for in Article 39 of the Statute.

We attest that in our opinion the total amount of the Bank's general and specific risk provisions is prudent. Specifically, the allocation of €25 million to the provision for severance pay and pensions reflects the adjustment of the mathematical reserves to the recent amendments to the social security laws and to the changes to the economic and financial parameters, as well as the resulting reabsorption of the temporary surplus that remained prudently allocated to the provision last year.

We have examined the Management Report required by Article 37 of the Bank's Statute and which accompanies the Annual Accounts and we consider it to be consistent with said Accounts.

Bearing in mind the provisions of Article 37.2 of the Statute, we recommend that you approve the Annual Accounts for 2018 that have been submitted to you (the Balance Sheet, the Profit and Loss Account, the Notes to the Accounts and the Management Report) and the proposed allocation of the net profit for the year pursuant to Article 38 of the Statute.

With the conclusion of the mandate conferred upon us, we kindly thank you for the trust placed in us

Rome, 7 March 2019

THE BOARD OF AUDITORS

Dario Velo (Chairman)

Giuliana Birindelli

Lorenzo De Angelis

Gian Domenico Mosco

Sandro Sandri

BALANCE SHEET FIGURES OF SUBSIDIARY COMPANIES

SIDIEF spa – SOCIETÀ ITALIANA DI INIZIATIVE EDILIZIE E FONDARIE – ROMA

STATO PATRIMONIALE AL 31 DICEMBRE 2017

ATTIVO	(importi in euro)	
	31.12.2017	31.12.2016
A) Crediti verso soci per versamenti ancora dovuti	–	–
B) Immobilizzazioni		
I <i>Immateriali</i>		
4) concessioni, licenze, marchi e diritti simili	26.473	51.321
7) altre	85.807	107.258
<i>Totale immobilizzazioni immateriali</i>	112.280	158.579
II <i>Materiali</i>		
1) terreni e fabbricati	520.012.163	529.171.731
2) impianti e macchinari	18.677	16.263
3) attrezzature industriali e commerciali	50.497	59.510
4) altri beni	391.196	443.434
<i>Totale immobilizzazioni materiali</i>	520.472.533	529.690.938
III <i>Finanziarie</i>		
2) crediti		
d) -bis verso altri	233.726	200.981
<i>Totale immobilizzazioni finanziarie</i>	233.726	200.981
Totale attivo immobilizzato (B)	520.818.539	530.050.498
C) Attivo circolante		
I <i>Rimanenze</i>		
4) prodotti finiti e merci	11.789.755	211.164
<i>Totale Rimanenze</i>	11.789.755	211.164
II <i>Crediti</i>		
1) verso clienti		
– entro 12 mesi	8.178.777	9.139.323
5bis) crediti tributari		
– entro 12 mesi	8.436	77.288
5ter) imposte anticipate		
– entro 12 mesi	3.149.934	3.216.211
5quater) verso altri		
– entro 12 mesi	272.330	300.405
<i>Totale crediti</i>	11.609.477	12.733.227
III <i>Attività finanziarie che non costituiscono immobilizzazioni</i>		
6) altri titoli	–	–
<i>Totale Attività finanziarie che non costituiscono immobilizzazioni (III)</i>	–	–
IV <i>Disponibilità liquide</i>		
1) depositi bancari e postali	33.064.854	30.368.780
2) assegni	–	–
3) danaro e valori in cassa	688	325
<i>Totale disponibilità liquide</i>	33.065.542	30.369.105
Totale attivo circolante (C)	56.464.774	43.313.496
D) Ratei e risconti	183.336	163.589
Totale attivo	577.466.649	573.527.583

STATO PATRIMONIALE AL 31 DICEMBRE 2017

PASSIVO	(importi in euro)	
	31.12.2017	31.12.2016
A) Patrimonio netto		
I Capitale Sociale	507.000.000	507.000.000
II Riserva da sovrapprezzo delle azioni	21.222.851	21.222.851
III Riserve di rivalutazione	16.668.304	16.668.304
IV Riserva legale	4.214.040	4.050.431
VI Altre riserve		
– Riserva straordinaria facoltativa	7.169.565	4.060.997
IX Utile (perdita) d'esercizio	4.025.797	3.272.177
Totale patrimonio netto	560.300.557	556.274.760
B) Fondi per rischi e oneri		
2) per imposte, anche differite	1.784.648	944.577
3) altri	481.530	2.657.049
Totale fondi per rischi e oneri (B)	2.266.178	3.601.626
C) Trattamento fine rapporto di lavoro subordinato	2.188.128	2.008.120
D) Debiti		
6) acconti		
– entro 12 mesi	119.366	45.205
7) debiti verso fornitori		
– entro 12 mesi	6.989.134	6.168.455
12) debiti tributari		
– entro 12 mesi	642.134	272.026
13) debiti verso istituti di previdenza e di sicurezza sociale		
– entro 12 mesi	251.566	303.738
14) altri debiti		
– entro 12 mesi	4.400.966	4.454.388
Totale debiti (D)	12.403.166	11.243.812
E) Ratei e risconti	308.620	399.265
Totale passivo	577.466.649	573.527.583

CONTO ECONOMICO AL 31 DICEMBRE 2017

	(importi in euro)	
	31.12.2017	31.12.2016
A) Valore della produzione		
1) ricavi delle vendite e delle prestazioni	31.653.358	30.405.446
5) altri ricavi e proventi vari	11.595.370	15.147.796
Totale valore della produzione (A)	43.248.728	45.553.242
B) Costi della produzione		
6) per materie prime, sussidiarie, di consumo e di merci	51.231	83.345
7) per servizi	9.899.781	10.000.756
8) per godimento di beni di terzi	181.781	167.058
9) per il personale		
a) salari e stipendi	4.408.825	4.246.281
b) oneri sociali	1.255.432	1.216.108
c) trattamento di fine rapporto	362.013	339.571
d) trattamento di quiescenza e simili	39.471	38.878
e) altri costi	6.025	22.225
<i>Totale spese per il personale</i>	<i>6.071.766</i>	<i>5.863.063</i>
10) ammortamenti e svalutazioni		
a) ammortamenti delle immobilizzazioni immateriali	66.951	223.759
b) ammortamenti delle immobilizzazioni materiali	1.989.744	6.218.710
d) svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilità liquide	328.720	1.528.146
<i>Totale ammortamenti e svalutazioni</i>	<i>2.385.415</i>	<i>7.970.615</i>
11) Variazione delle rimanenze materie prime, sussidiarie, di consumo e merci	2.193.745	-
12) accantonamenti per rischi	19.800	114.787
14) oneri diversi di gestione	11.978.539	12.561.562
Totale costi della produzione (B)	32.782.058	36.761.186
Differenza tra valore e costi di produzione (A-B)	10.466.670	8.792.056
C) Proventi e oneri finanziari		
16) Altri proventi finanziari		
c) da titoli iscritti nell'attivo circolante che non costituiscono partecipazioni	-	85.959
d) proventi diversi dai precedenti – altri	268.602	297.787
<i>Totale altri proventi finanziari</i>	<i>268.602</i>	<i>383.746</i>
17) Interessi e altri oneri finanziari – altri	9.524	71.382
Totale proventi e oneri finanziari (C)	259.078	312.364
D) Rettifiche di valore di attività finanziarie		
19) svalutazioni		
c) di titoli iscritti nell'attivo circolante	-	-
Totale rettifiche di valore di attività finanziarie (D)	-	-
Risultato prima delle imposte (A-B±C±D)	10.725.748	9.104.421
20) imposte su reddito dell'esercizio, correnti, differite e anticipate		
a) imposte correnti	5.820.355	5.610.228
b) imposte differite	840.071	246.236
c) imposte anticipate	66.277	50.101
d) imposte esercizi precedenti	-26.752	-74.321
<i>Totale imposte sul reddito dell'esercizio</i>	<i>6.699.951</i>	<i>5.832.244</i>
21) UTILE (PERDITA) DELL'ESERCIZIO	4.025.797	3.272.177

REPORT OF THE AUDITING COMPANY

Relazione della società di revisione indipendente ai sensi dell'art.37 dello Statuto della Banca d'Italia

Ai Partecipanti al capitale della
Banca d'Italia

Relazione sulla revisione contabile del bilancio d'esercizio

Giudizio

Abbiamo svolto la revisione contabile dell'allegato bilancio d'esercizio della Banca d'Italia (di seguito, anche, l'"Istituto") costituito dallo stato patrimoniale al 31 dicembre 2018, dal conto economico per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Banca d'Italia al 31 dicembre 2018 e del risultato economico per l'esercizio chiuso a tale data, in conformità ai principi e criteri contabili dettati dalle norme speciali descritti nella nota integrativa.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione.

Siamo indipendenti rispetto all'Istituto in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Responsabilità degli Organi direttivi dell'Istituto e del Collegio sindacale per il bilancio d'esercizio

Gli Organi direttivi sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità ai principi e criteri contabili dettati dalle norme speciali descritti nella nota integrativa e per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli Organi direttivi sono responsabili per la valutazione della capacità dell'Istituto di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, a meno che non abbiano alternative realistiche a tale scelta.

Il Collegio sindacale, nei termini previsti dallo Statuto, svolge funzioni di controllo sull'amministrazione della Banca per l'osservanza della legge, dello statuto, del regolamento generale; verifica nel corso dell'esercizio la regolare tenuta della contabilità e la corretta rilevazione dei fatti di gestione nelle scritture contabili, esamina il bilancio ed esprime il proprio parere sulla destinazione dell'utile netto.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche prese dagli utilizzatori sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno dell'Istituto;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli Organi direttivi, inclusa la relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli Organi direttivi del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità dell'Istituto di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio, ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione.
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Roma, 7 marzo 2019

BDO Italia S.p.A.

Rosanna Vicari
Socio

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 2018

GOVERNING BOARD - DIRECTORATE

Ignazio VISCO	GOVERNOR
Salvatore ROSSI	SENIOR DEPUTY GOVERNOR
FABIO PANETTA	DEPUTY GOVERNOR
Luigi Federico SIGNORINI	DEPUTY GOVERNOR
Valeria SANNUCCI	DEPUTY GOVERNOR

BOARD OF DIRECTORS

Franca Maria ALACEVICH	Gaetano MACCAFERRI
Francesco ARGIOLAS	Ignazio MUSU
Nicola CACUCCI	Lodovico PASSERIN D'ENTREVES
Carlo CASTELLANO	Donatella SCIUTO
Marco D'ALBERTI	Orietta Maria VARNELLI
Giovanni FINAZZO	Marco ZIGON
Andrea ILLY	

BOARD OF AUDITORS

Dario VELO - CHAIRMAN	
Giuliana BIRINDELLI	Gian Domenico MOSCO
Lorenzo DE ANGELIS	Sandro SANDRI

ALTERNATE AUDITORS

Giovanni LIBERATORE	Anna Lucia MUSERRA
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HEAD OFFICE

MANAGING DIRECTORS

Augusto APONTE	- MANAGING DIRECTOR FOR INTERNAL AUDIT
Corrado BALDINELLI	- DIRECTOR GENERAL FOR HUMAN RESOURCES AND ORGANIZATION
Carmelo BARBAGALLO	- DIRECTOR GENERAL FOR FINANCIAL SUPERVISION AND REGULATION
Ebe BULTRINI	- DIRECTOR GENERAL FOR INFORMATION TECHNOLOGY
Luigi DONATO	- DIRECTOR GENERAL FOR PROPERTY AND TENDERS
Eugenio GAIOTTI	- DIRECTOR GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
Paolo MARULLO REEDTZ	- DIRECTOR GENERAL FOR MARKETS AND PAYMENT SYSTEMS
Marino Ottavio PERASSI	- GENERAL COUNSEL
Roberto RINALDI	- DIRECTOR GENERAL FOR CURRENCY CIRCULATION AND ACCOUNTING
Giuseppe SOPRANZETTI	- MANAGING DIRECTOR WITH SPECIAL DUTIES AND MANAGER OF THE MILAN BRANCH

* * *

Claudio CLEMENTE	- DIRECTOR OF THE FINANCIAL INTELLIGENCE UNIT FOR ITALY
Daniele FRANCO	- STATE ACCOUNTANT GENERAL

